

**The Transition from Necessity-Based Start-Up to Subsequent Opportunity  
Entrepreneurship: A Case Study of China**

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## **Declaration**

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## **Abstract**

Entrepreneurship can be categorised as necessity- and opportunity-driven based on the motivation of the entrepreneurship (e.g., Reynold et al., 2001; Verheul et al., 2010). Extant studies have shown that opportunity entrepreneurship is more desirable than necessity entrepreneurship (e.g., Harding, 2003; Henrekson, 2004; Minniti et al., 2005) because opportunity entrepreneurship has a lower rate of business failure (e.g., Harding, 2003; Minniti et al., 2005), more income (Block & Wagner, 2007) and more positive effects on economic development (Acs & Varga, 2005; Acs, 2006). A shift of entrepreneurship away from a necessity driver to opportunity driver has therefore been observed in various contexts (Williams et al., 2006; Williams & Round, 2009; Williams & Williams, 2011). However, little research has considered how necessity entrepreneurship has transitioned to subsequent opportunity entrepreneurship, and what factors have determined this transition process. To overcome the deficiency in research, this study aims to investigate the factors that drive the transition process and the mechanism through which the transition process occurs.

This research was based in China, in which rapid economic growth has been gained and more than 100 million people have been involved in various entrepreneurial activities (Guthrie, 2009). In addition, existing research tends to focus on developed countries while developing countries, such as China in which the cultural values and institutional environment is significantly different from developed countries, have been largely ignored (e.g., Chen & Francesco, 2000; Puffer et al., 2010). This research is therefore expected to account for this unique research setting. A qualitative method based on six case studies was adopted in the research. The data were collected through a triangular method by using in-depth interviews with the entrepreneurs and other related parties, and on-site observation. These data were thematic-analysed to generate propositions.

The findings show that the entrepreneurs were forced to involve in necessity-based start-ups mainly by the difficulties faced by them in career development, financing and family matters while self-motivations, business opportunities and available resources were the major factors that facilitated the transition process from necessity-based start-up to the subsequent opportunity entrepreneurship. The findings also suggested that the transition from necessity entrepreneurship to subsequent opportunity entrepreneurship involved a four-stage process, including the pre-venture stage, the necessity entrepreneurship stage, the transition stage and the opportunity entrepreneurship stage. By exploring the cases based on a culturally and institutionally different setting in China, this study suggests that, in addition to the economic environment and personal situations of the entrepreneurs, cultural and institutional factors also matter to their entrepreneurial activities. A mixed perspective is needed to take into account the complicated environment facing the entrepreneurs.

This study contributes to the literature by taking into account the complicated environment factors of China and identifying the mechanism through which the transition process from necessity-based start-up to subsequent opportunity entrepreneurship has occurred. This study also generates practical implications for both novice and veteran entrepreneurs in progressing to an advanced level of entrepreneurship. It is also suggested that favourable regulatory environment and government policies are needed in order to facilitate the development of entrepreneurship. However, this study was conducted in a culturally and institutionally unique setting of China. Therefore, the implications of the findings are limited to such a setting, and caution is needed when applying the findings to different settings.

Opportunities for future research have been identified in this study. Given the limitations of a cross-sectional method, a longitudinal study would provide additional insights for explaining the dynamism of the transition process. In addition, future research could include entrepreneurs failed in the transition process to provide an alternative perspective on the transition process. Further, future

research based in different research settings are also suggested, which would help provide additional evidence to support the findings of this study.

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# **Chapter 1: Introduction**

## **1.1 Introduction**

The first chapter of the thesis introduces the research topic. As such the objectives of this chapter, the first section demonstrates the research rationale. Then the purpose and research questions of this study are provided in subsection 1.3. Subsection 1.4 demonstrates the nature of the study. The significance, contribution and limitation of the thesis are discussed in subsections 1.5 and 1.6. The last section then concludes with the structure of the thesis.

## **1.2 Research Rationale**

Low and Macmillan (1988) suggested that entrepreneurship is defined as the creation of new enterprise. Consistent evidence demonstrates that entrepreneurship is vital to the society because it introduces innovation into economic systems and contributes to economic developments (Acs et al., 2003; Audretsch & Thurik, 2000; Audretsch & Keilbach, 2004; Schumpeter, 1934). As such, policy-makers have paid particular attention to the encouragement of entrepreneurship (Audretsch & Thurik, 2000; Audretsch et al., 2002). Academics have also been attracted to the study of this important topic (Audretsch, 2007).

In order to better understand entrepreneurship phenomena, researchers have been investigating different types of entrepreneurship, including the typology based on motivation (Reynolds et al., 2001), intention and experience of the entrepreneurs (Hall, 1995; MacMillan, 1986; Morrish, 2008), and ownership propensity of the businesses (Westhead & Wright, 1998; Westhead, Ucbasaran & Wright, 2005). Among them, there has been a tendency towards the use of the typology based on motivation, which are necessity entrepreneurship and opportunity entrepreneurship (Verheul et al., 2010). It has become increasingly common to distinguish between necessity entrepreneurs who are



pushed into entrepreneurship since all other options for work are either absent or unsatisfactory, and opportunity entrepreneurs who are pulled into entrepreneurship because of lucrative business opportunities (e.g., Harding et al., 2006; Maritz, 2004; Minniti, Bygrave & Autio, 2005; Reynold et al., 2001; Smallbone & Welter, 2004).

For over a decade, the impacts (Jorn & Philipp, 2009) and the differences (Minniti et al., 2005; Smallbone & Welter, 2004) of necessity entrepreneurship and opportunity entrepreneurship have been investigated. Besides researching the different motivations (Bhola et al., 2006; Johnson & Darnell, 1976; Uhlaner & Thurik, 2007), other factors such as the socio-economic characteristics (Amit & Muller, 1995; Block & Wagner, 2007; Reynold et al., 2001), the determinants (Block & Wagner, 2007; Bergmann & Sternberg, 2007; Caliendo & Kritikos, 2009; Verheul, 2010) and the outcomes (Block & Wagner, 2007; Block & Sandner, 2009; Harding, 2003; Henrekson, 2004; Minniti, Bygrave & Autio, 2005) of necessity entrepreneurship and opportunity entrepreneurship have been examined.

By comparing their differences, it is argued that opportunity entrepreneurship is more desirable than necessity entrepreneurship (e.g., Henrekson, 2004; Block & Wagner, 2007) because opportunity entrepreneurship may lead to a lower rate of business failure (e.g., Harding, 2003; Minniti et al., 2005), generate more income (Block & Wagner, 2007), and possess more positive effects on economic development (Acs & Varga, 2005; Acs, 2006). Therefore, opportunity entrepreneurship is encouraged (Audretsch & Thurik, 2000; Audretsch et al., 2002).

Although necessity entrepreneurship and opportunity entrepreneurship are defined very differently, recent studies reveal that there are some close relationships between these two types. It is found that the self-employment which starts as a reluctant choice of the entrepreneurs, may evolve into a desirable alternative over time (Granger, Stanworth & Stanworth, 1995; Hinz & Jungbauer-

Gans1999), showing a dynamic evolution from necessity entrepreneurship to subsequent opportunity entrepreneurship. Researchers have also discovered that entrepreneurs' start-up motives and willingness may shift from a necessity driver to opportunity driver over time (Williams et al., 2006; Williams & Round, 2009; Williams & Williams, 2011). In fact, with entrepreneurial satisfaction, necessity entrepreneurs may create subsequent ventures to progress to opportunity entrepreneurs after starting their initial ventures (Ronstadt, 2007). A similar argument is also made by Kautonen and Palmroos (2010) that if the individuals are satisfied and willing to staying in business, their entrepreneurial activities cannot be deemed as a necessity, even if the start-up decision might have been necessity-based.

However, the factors that drive the transition process and the process through which the transition occurs remain unknown. Thus, an investigation of the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship is imperative. The exploration of the transition process would enhance the existing body of knowledge of entrepreneurship and provide useful guidance for those who dare to engage in this endeavour.

To conduct this study, selecting a developing economy as the context of this research provokes more thoughts. This is because in developed countries, self-employment resulting from the unemployment necessity dynamic does not necessarily lead a jobseeker to engage in necessity entrepreneurship, since individuals are largely protected by the welfare system (Frese & De Kruif, 2000). With the protection of the welfare system, those jobseekers may not always be encouraged to consider being self-employed. However, the situations are different in developing countries since most developing countries are lack of social safety net protections. In this regard, the protection for individuals is limited, which result in more necessity entrepreneurial activities than in developed countries. Thus, this research selects the biggest and fastest growing developing economy- China as the context of this

study. Details of the background and entrepreneurship development in China are discussed in Chapter 2.

### **1.3 Purpose and research questions**

This study aims to explore the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship that occurs within the process of entrepreneurship. In order to do so, each stage of the transition process and the factors influence the development of entrepreneurship will be investigated.

This study will start with the exploration of the pre-venture stage of the necessity-based start-up. In order to do so, this research starts by focusing on the motivations of necessity start-ups, and then examines the factors that facilitate individuals into self-employment, which provides a deeper insight of the influence of the ‘push force’ (Bhola et al., 2006) on entrepreneurship.

Secondly, this research will evaluate the process of operating necessity-based businesses and figure out changes during the process. The changes include the businesses themselves and entrepreneurs’ abilities, motivations, possession of resources, and other factors. According to Kautonen and Palmroos (2010), the initial necessity-based start-up has some impacts on the subsequent entrepreneurship. Based on this view, the comprehension of the operation of necessity-based businesses contributes to the understanding of this dynamic process.

Thirdly, this study will discover the factors which determine the transition from the necessity-based start-up to the subsequent opportunity entrepreneurship. Although previous studies have revealed the

determinants of opportunity entrepreneurship, their effects in the context of the transition process remain unknown.

Lastly, this research will develop a transition process model based on the understanding of these phenomena. Therefore, this work contributes to the body of knowledge of the entrepreneurship studies, and contributes to the understanding of the new venture creation process.

Therefore, to investigate and comprehend this specific entrepreneurial process, the following research questions are explored:

1. What are the motivations and contextual factors that ‘push’ individuals to start initial necessity-based businesses?
2. What are the motivations that ‘pull’ necessity entrepreneurs into the subsequent opportunity entrepreneurship?
3. What are the key factors that determine the shift from the necessity-based start-up to the subsequent opportunity-based entrepreneurship? How do these factors impact the shift?
4. What is the transition process from the necessity-based start-up to the subsequent opportunity-based entrepreneurship?

## **1.4 Nature of the study**

The adoption of the methodology and the research methods essentially depend on the nature of the research and the questions being studied. The goal of this research is to explore the transition process from the necessity-based start-up to the subsequent opportunity entrepreneurship. Therefore the application of qualitative method is more appropriate. The selection of the qualitative method in this study also reflects Savage and Black’s (1995) suggestion that studying entrepreneurship invites an in-depth investigation of the people, the processes and the contexts where entrepreneurship occurs.

To achieve the goal of this study, a series of case studies will be utilised. This is because the case study method offers more advantages over the quantitative method in the given context (Yin, 2003) and fits this research better. Firstly, qualitative methods are proper when the sample size is relatively small, which was the case in the present research. Secondly, this study aims to comprehend the reasons and characteristics of behaviour and relationships in context as opposed to doing a statistical study of the distribution and frequency of these behaviours. Thirdly, interviews and observations, rather than predetermined survey instruments provided more flexibility to examine behaviours and their interactions (Creswell, 2000). Details of the methodology are discussed in Chapter 4.

## **1.5 Significance and contribution**

This study seeks to contribute to theory and practice. The first theoretical contribution is that it is expected to add recognition of the typology of necessity entrepreneurship and opportunity entrepreneurship, since these two concepts have still been criticised (Smallbone & Welter, 2003; Frese & De Kruif, 2000). Secondly, it also seeks to reveal and explain the unique entrepreneurial process of the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship, which may contribute significantly to this body of literature. Literature shows that previous studies mainly focused on the distinction of necessity entrepreneurship and opportunity entrepreneurship and most discussion were mainly based on this distinction (e.g., Harding, 2003; Harding et al., 2006). Little research has discussed the transition from necessity entrepreneurship to opportunity entrepreneurship, let alone the transition process model. Therefore, studying the transition from necessity entrepreneurship to subsequent opportunity entrepreneurship would contribute to the understanding of this dynamic. Thirdly, by studying the biggest developing country, China, it is expected to figure out some different social elements influencing entrepreneurship development, which will significantly contribute to the understanding of entrepreneurship in developing countries.

In terms of the practical contribution, it is important to look into the outcomes of entrepreneurial activities at the individual level. It is suggested by Ucbasaran et al., (2001) that it is important to identify the skills that successful entrepreneurs have learned and accumulated so that they can be disseminated. In this regard, the findings of this study would provide some advices and guidance for both nascent and novice entrepreneurs, who hopefully improve their understanding of entrepreneurship and increase the success rate of venturing. The other expected practical contribution is for policy formulation. The positive impacts of entrepreneurship on economic development should suggest the issue of more favourable regulations on entrepreneurship, particularly the encouragement of opportunity entrepreneurship as well as facilitating necessity entrepreneurs to further their entrepreneurial careers by involving in subsequent opportunity venturing.

## **1.6 Limitations**

Every research study has limitations, and it is impossible to create a single perfect study that could be considered as the final answer to significant research issues in the business research context (Scandura & Williams, 2000). One common and important limitation of research studies is rooted in the skills and capabilities of the researcher. Usually, the researcher is not a part of the organisation to be studied and as an outsider the researcher has limited access to the studied organisation which could impact on comprehending the actual experience of the members of the subject organisation.

Another common research limitation is the time. This is particularly true with full-time doctoral candidates. Usually, the candidature lasts a maximum of four years, so the boundaries and scope of the project, the choice of the sample for the study, and the methods used are important issues to be considered carefully before starting the journey.

The last limitation is the generalisability. Case studies are often criticised that they provide little basis for scientific generalisations (Yin, 1994). The findings and results of this study cannot be assumed to have generalisable application. However, this research was not intended to provide generalised theories, but to explore the factors that drive the transition process and the dynamic mechanism through which the transition process is completed. A series of propositions will be developed to depict this transition process, based on which generalisable theories can be derived through quantitative research in the future.

## **1.7 Organisation of the study**

To achieve the objectives of this study, a qualitative study was conducted, of which the data were thematic-analysed and a series of propositions were developed. The contribution and limitations of this study were then discussed. The following part provides a description for each of the chapters.

### **Chapter 2**

This chapter provides relevant background of Chinese entrepreneurship, which introduces Chinese economic development, the environment for entrepreneurship in China and the development and activities of Chinese entrepreneurship.

### **Chapter 3**

This chapter is a review of related literature and research on entrepreneurship topics. This chapter begins with the introduction of main schools of thought of entrepreneurship, and then discusses the analytical levels in entrepreneurship, entrepreneur types, and the comparison of necessity entrepreneurship and opportunity entrepreneurship. Then the literatures of the subsequent

entrepreneurship and the process of entrepreneurship are reviewed. The research framework is developed based on the literature review.

#### **Chapter 4**

This chapter introduces the methodology applied in this study. It starts with the introduction of the research purpose, and then the research design and the utilisation of case studies are discussed. The following sections then provide the data collection methods, data profiles and the data analysis methods.

#### **Chapter 5**

This chapter reports the data analysis and results of this research, which includes four main sections. The first section reveals the determinants of necessity-based start-ups. The second section discusses the motivations of the subsequent opportunity entrepreneurship. The third section reveals the determinants of the transition from the necessity-based start-up to the subsequent opportunity entrepreneurship. The last section provides a transition process model.

#### **Chapter 6**

As the last chapter of this thesis, it includes the summary of the study, discussion of the results, the contributions and limitations of the study, the recommendations for future research and the conclusions.



## **Chapter 2: Background of entrepreneurship in China**

### **2.1 Introduction**

This chapter provides relevant background of entrepreneurship in China. As China moves from a central planned economy structure to a market economy structure with Chinese characteristics, it has shown a booming trend in entrepreneurship development. This transition environment is argued as the necessary condition of entrepreneurship development and the ‘incubator’ of entrepreneurial activities (Zhang & Duysters, 2010). It was also addressed by Harper (2003) that the developing countries characterised by collective culture might possess some different social elements influencing entrepreneurship development. Since the development and environment of entrepreneurship in China is different from western countries, it is important to have an in-depth understanding about the institutional environment of China in order to explore the factors that impact on entrepreneurship in China.

In order to better understand the context of Chinese entrepreneurship, this chapter firstly describes the Chinese economic development. Specifically, in the past thirty years, China has achieved breathtaking economic development with an average 9 percent of GDP growth annually. The following section introduces the environment for Chinese entrepreneurship. Specifically, the first part describes the institutional environment. Even though the entrepreneurship environment has improved compared with the past, it is learned that China’s institutional environment is still not that conducive to entrepreneurship (Baumol, 1990; Sobel, 2008; Zhou, 2011). Subsequently, the next part introduces the Chinese cultural environment. With a history of several thousand years, the traditional Chinese culture is different from that of western countries in many ways (Child & Lu, 1996; Chen & Francesco, 2000). Then, the entrepreneurship development in China is discussed in three main phases including the period from 1949 to 1978 suppression of entrepreneurial activities, 1979 to 1996 the emergence of

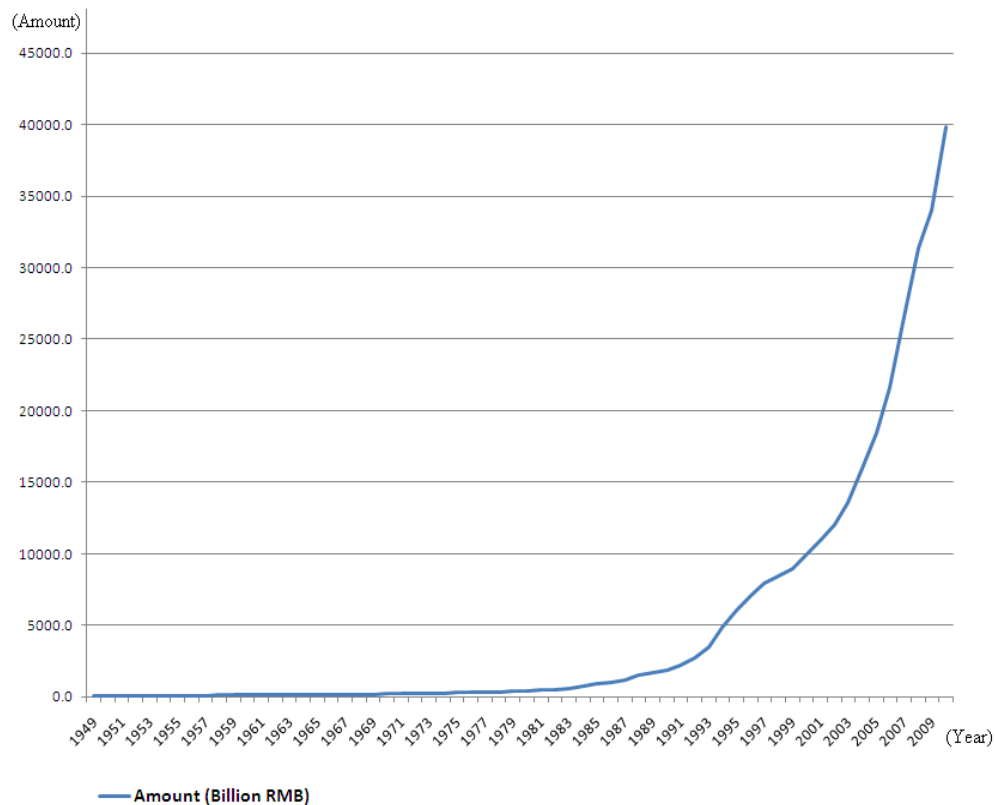
entrepreneurship and from 1997 to the present removal of ideological discrimination on entrepreneurship. Lastly, this chapter concludes with the chapter summary.

## **2.2 The economic development in China**

China, as one of the largest emerging countries, has attracted much attention from both business and academia (Zhang & Duysters, 2010). As Child and Tse (2001) describe that the country is the ‘most singular of the transition economies’, not only because of the vast landscape and huge population, but also because it has managed to achieve the most outstanding economic development in the past thirty years.

After ten years of Cultural Revolution (from 1966 to 1976) during which the nation largely closed its doors to the world and industrial production was severely curtailed, Mao Zedong’s successor, Deng Xiaoping sought changes. In 1978, the party introduced the Open Door Policy, which marked a national strategic turning point: from a planned economy where everything was allotted in the society, to a market economic structure where competition was gradually encouraged and a free market was under formation. Experience from other nations suggests that the entrepreneurship has a dramatic impact on economic developments (e.g. Martinez, 2005; Pisani & Pagan, 2004) and China is no exception (Zhou, 2011). In the past three decades, China not only pulled numerous people out of poverty, but also produced an average 9 percent of GDP growth rate. Especially since the mid-1990s, private businesses have developed dramatically and contributed immensely to the recent economic miracle in China (Zhou, 2011). Figure 2-1 below indicates China’s GDP from the year 1949-2009. It is obvious from the figure that the GDP growth has rocketed especially in the last three decades.

**Figure 2-1: China's GDP from 1949-2009**



(Source: The national bureau of statistics of the People's Republic of China 2012)

Table 2-1 compares China's GDP for 1978 and 2008. The two years represent the beginning of the implementation of the Open Door Policy and the figure thirty years later. According to the table, after the introduction of the Open Door Policy, China's market underwent an astonishing growth, with GDP boosted from US\$148 billion in 1978 to US\$4.33 trillion in 2008 (NBSC, 2013). That is an increase of roughly thirty times in thirty years. Further, Table 2-1 also provides a horizontal comparison of GDP increases in different countries during the same thirty years, which includes both large developed nations and other potential emerging countries.

**Table 2-1: Increase of GDP from 1978 to 2008 in developed and developing countries**

Year	GDP (USD, Trillion)								
	China	Developed Countries					BRIC Countries (except China)		
		USA	UK	Australia	France	Japan	India	Brazil	Russia
1978	0.148	2.280	0.325	0.116	0.502	0.968	0.135	0.201	N/A
2008	4.330	14.600	2.670	1.020	2.860	4.910	1.160	1.580	1.680
GDP increase (times)	29.3	6.4	8.2	8.8	5.7	5.1	8.6	7.9	N/A

(Source: The national bureau of statistics of the People's Republic of China 2012)

According to the table, in the selected developed countries, during 1978 and 2008, the GDP increased at the range between 5.1 to 8.8 times. The developing countries India and Brazil's GDP increased 8.6 and 7.9 times respectively. However, China's GDP grows 29.3 times from \$0.148 US trillion to 4.330 US trillion in the period between 1978 and 2008. This growth has outperformed all the selected nations. This rapid growth rate is contributed by the fast development of private entrepreneurial sector (e.g. Liao and Sohmen, 2001; Zhou, 2011).

## 2.3 The environment for entrepreneurship in China

This section discusses the environment for entrepreneurship in China, focusing mainly on institutional environment and cultural factors. Details are discussed in the following parts.

### **2.3.1 Institutional environment**

Despite the rapid development of entrepreneurship and the increasing contribution to the economy, Chinese entrepreneurs still encounter considerable problems and a number of institutional issues still remain. These institutional voids are particularly pertinent in light of the uniqueness of transition economies whose circumstances differ significantly from those of developed economies that possess supportive formal institutions for entrepreneurship (Puffer et al., 2010). It is generally accepted that China's institutional environment is not that conducive to private business (Baumol, 1990; Sobel, 2008; Zhou, 2011), often resulting in an unstable environment and creating a void usually filled by informal ones (Puffer et al., 2010). Thus, entrepreneurs face more uncertainty and risk than those in developed countries.

Even though the regulatory discrimination against private entrepreneurship has been formally removed, the ideological discrimination lingered. The central government still puts more emphasis on state-owned sectors (Hu & Lin, 2013; Naughton, 2007; Yiu et al., 2014), and private enterprises are still restrained from entering some specific industries. Although it might be argued that some industries of national interest, such as power and utilities, health care, and transportation should never fall into the hands of private enterprises, the sectoral restrictions placed towards Chinese entrepreneurs were still higher than those of developed countries (Zhou, 2011). Statistically, around 50 percent of total industry sectors in China are prohibited to private firms (Zhou, 2011).

As Liao and Sohmen's (2001) study illuminated that one environmental barrier for Chinese entrepreneurship is political and legal uncertainty including insecurity of property rights and the rule of law to protect entrepreneurship is still in its infancy and therefore the development of entrepreneurship is hindered (Djankov et al., 2006; Yang, 2002). The government does not provide substantive legal protection for private property and Zhang and Ming (1999) noted that some private entrepreneurs were harassed by official government through expropriation and extortion. Further, private firms are often discriminated against by the courts (Zhou, 2011).

Another barrier is the difficulty to gain access to resources, particularly the barrier of bank financing for entrepreneurs (Talavera, Xiong & Xiong, 2012). This is mainly because of the unlevelled playing field between private firms and state-owned enterprises (Zhou, 2009). Due to the preferential treatment by the state, state-owned enterprises have dominated access to finance through the state-owned banking system, resulting that most state-owned banks mainly consider lending to state-owned enterprises and lack of considerations for private firms (Zhou, 2009). Only by setting up good connection with banks can a few entrepreneurs obtain bank loans (Peng & Heath, 1996; Talavera et al., 2013; Zhou, 2009). These informal institutional arrangements are widely used to guide entrepreneurial activities due to the immature regulatory environment (Puffer et al., 2010; Welter & Smallbone, 2008). Although such informal institutional arrangements may facilitate the development of entrepreneurship, entrepreneurship will be essentially unproductive, the contribution to the economy will also be limited (Zhou, 2011).

Since China's institutional environment has not been historically conducive to private sectors (Zhou, 2011), entrepreneurs encounter considerable problems and face a number of barriers when establishing a business. Specifically, due to the lack of a formal institutional arrangement and an effective and transparent government, this environment often results in instability for entrepreneurs and creates a void usually filled by informal ones (Puffer et al., 2010; Xin & Pearce 1996).

### **2.3.2 Cultural environment**

Outside the institutional environment, the cultural environment has an impact on entrepreneurship patterns especially in developing countries characterised by collective culture (Harper, 2003). Chinese culture is different from those of western countries in many ways (e.g., Chand & Ghorbani, 2011; Chen & Francesco, 2000; Child & Lu, 1996), especially the typical traditional culture. The traditional Chinese culture encompasses varied schools of thought, including Confucianism, Buddhism, Taoism, and others along with a host of regional cultures. Among those, Confucianism is seemed as the most

influential philosophy (Fan, 2000). The Confucian system includes five constant virtues: faithfulness, propriety, righteousness, humanity and wisdom (Ch'en, 1986), as the basic teaching. This philosophy also has an influence on the structure and decision making in firms including thrift and self-sacrifice, reciprocal loyalty to valued employees and suppliers, harmonious and tolerant Chinese management style, and loyalty to top management (Ahlstrom et al., 2010).

In both traditional and modern China, Confucian culture also emphasises the importance of the family which viewed as the essential social unity (e.g., Ames & Rosemont, 2014; Zapalska & Edwards, 2001). The family norms are deemed as the formal code of conduct, and all members have to obey and accept these standards. Besides the importance of family, Confucian culture also emphasises the links between ancestors and living family members as well as future family members. With this thought, entrepreneurs see work as more significant than leisure since they want to contribute to family security. However, even though entrepreneurs work diligently, under the influence of Confucianism, they still do not have good social status, and this phenomenon even extends to the contemporary society. This is because that in ancient Chinese society, Confucianism ranks merchants as the bottom rung of the society, plus those 30 years under the Maoist era (1949-1979) that capitalism was suppressed (see Section 2.4.1). These historical holdovers affect perceptions towards the social status of entrepreneurs.

Confucianism also emphasise organisational collectivism. Instead of achieving personal objectives, they view collective objectives as more important (Zapalska & Edwards, 2001). It is believed that collectivism strengthens relationships and develops harmony with the group or family turn and makes the network structure dense and closed in the organisational setting (Luo & Yeh, 2012). Additionally, Confucian culture emphasises respect for age, respect for parents and the importance of the paternal head. To sum, Confucianism seems the most influential philosophy, the foundation of Chinese cultural tradition (Pye, 1972).

In addition to the traditional culture- Confucianism influence, there are two other major elements of Chinese culture (Fan, 2000): communist ideology (discussed in Section 2.4) and western values (atypical of Chinese culture, not discussed). Combined with these three major cultural elements, in contemporary Chinese society, there are two most prominent cultural characteristics that have significant influence on doing business in China, which are *guanxi* and *mianzi* (e.g., Buckley Cleggand & Tan, 2006; Tung & Worm, 2001; Yeung & Tung, 1996).

One important dimension of the typical Chinese culture which significantly impacts on setting up a business in China is *guanxi*. *Guanxi*, in its simplest meaning, is a special personal relationship between two people in the Chinese context (Zhao, Frese & Giardini, 2010). *Guanxi* facilitates the development of social interactions which involves a series of pre-planned activities and often involves intermediaries who help in the process of setting up a new business, for example, by introducing business owners to the right suppliers or customers (Fan 2002; Chen & Chen 2004). *Guanxi* provides a sense of connectedness and usable resources, lower transaction costs, and reduces uncertainty (Wellman, Chen & Dong, 2002). Once *guanxi* is established, reciprocal favours are asked from each other constantly (Xin and Pearce 1996). Consequently, in China, *guanxi* has been shown to be significant to achieve entrepreneurship success (Hoang & Antoncic, 2003).

*Mianzi* is another equally significant concept in Chinese culture, which is defined as recognition by others of an individual's social standing and position (Lockett, 1988). In Chinese cultural context, to save a person's *mianzi*, in other words, to protect others' dignity and prestige has been seen as vital as maintaining *guanxi* (Buckley et al., 2006). Saving *mianzi* is a shortcut to establish good relationships and to easily gain access to some social resources. As can be seen, *mianzi* is a vital component in the dynamic of *guanxi* (Sherriff, Lorna & Stephen, 1999). China's culture is different from that of western countries in many ways (e.g., Chand & Ghorbani, 2011; Chen & Francesco, 2000; Child & Lu, 1996). In particular, it is characterised by collective value, which significantly influences setting up businesses in China (Harper, 2003). The impacts of the collective value are mainly based on the



typical traditional culture (e.g., Child & Lu, 1996; Fan, 2000) and communist ideology (Zapalska & Edwards, 2001).

Based on the discussion above, it can be seen that despite the rapid development of entrepreneurship in China, Chinese entrepreneurs still face some considerable issues. These issues include the influences from the immature institutional environment as well as the specific cultural environment.

## **2.4 The development of entrepreneurship in China**

This section discusses three main phases of entrepreneurship developments in China includes the period from 1949-1978, the suppression of entrepreneurial activities; the period from 1979-1996, the emergence of entrepreneurship; the period from 1997- current, the removal of ideological discrimination on entrepreneurship. Details are discussed in the following parts.

Since China's institutional environment has not been historically conducive to private sectors (Zhou, 2011), entrepreneurs encounter considerable problems and face a number of barriers when establishing a business. Specifically, due to the lack of a formal institutional arrangement and an effective and transparent government, this environment often results in instability for entrepreneurs and creates a void usually filled by informal ones (Puffer et al., 2010; Xin & Pearce 1996).

### **2.4.1 1949-1978: Suppression of entrepreneurial activities**

When the People's Republic of China was founded in 1949, it became an ideologically Marxist country. With this ideology, the existing market economy was gradually transformed to a socialist economy. The collective ownership and identity were emphasised by declaring that the communist party and the country stood for the interests of the working class (Zapalska & Edwards, 2001). The

economic structure at that time was dominated by large state-owned enterprises (SOEs) especially the heavy industry (Naughton, 2007), while the private business was legally forbidden. Capitalist activities were completely stifled, even capitalist suspicions could easily make people in trouble. In order to restrain the power of the so-called ‘capitalist entrepreneurial class’, unregulated markets were eliminated (Zapalska & Edwards, 2001).

All businesses, industries and even markets were controlled by the government. Except for a few people worked for government-controlled industries, most people lived in rural areas and worked on the land as farmers, and at that time, the agriculture was also collectivised. People were motivated by political and moral rewards rather than profit-driven motivations (Zapalska & Edwards, 2001). In the centrally planned economy, the government determined the allocation of economic inputs and outputs, and production and distribution were maintained as a monopoly (Liao & Sohmen, 2001). In addition, state-owned industries and enterprises provided benefits and housing to employees who were in a so-called ‘Iron Rice Bowl’ employment which meant they would never lose their jobs (Chan & Peng, 2011). During that time, private business was legally forbidden. Although, entrepreneurship was never entirely suppressed as it still existed in the form of the black market and underground economy (Liao & Sohmen, 2001). During that era, the overall significance of Chinese entrepreneurship development was almost negligible.

#### **2.4.2 1979-1996: Emergence of entrepreneurship**

The second stage of entrepreneurship development started from 1979 to 1996. After thirty years of a socialist planned economy and Cultural Revolution, China’s economy was in ruins and it encountered serious shortages of goods and services, low morale in industries and on collective farms, and a high unemployment rate in the late 1970s (Naughton, 2007). In order to tackle these historical issues, Deng Xiaoping initiated Chinese reforms by launching the ‘Four Modernisations’ reform program in 1978.

However, China had a planned economy for three decades and the reforms were a kind of exploration without knowing exactly what will happen (Guthrie, 2012).

China had no desire to copy western countries' democracy-based capitalism. Instead, it was declared as 'socialism with Chinese characteristics'. Unlike other communist countries, China's reforms concentrated on the construction of market institutions rather than focusing on the destruction of socialist institutions (Overholt, 1994). Therefore, the transition from the planned economy to the market economy had occurred without any alteration in China's political structure (Solinger, 1995). The reforms' objectives were to stimulate the economy and to develop a more market-oriented economy and allow market principles to work (Ma, 2002). 'To be rich is to be glorious' which was Deng's renowned statement provided a new logic for entrepreneurship (Yan, 2012).

One significant step was decollectivisation of agriculture, which caused rural unemployment since peasants did not work collectively as before. The rural and urban unemployment together created the impetus for the fast development of entrepreneurship, initially as township and village enterprises (Zhou, 2013). The township and village enterprises (TVEs) were not state-owned enterprises but collectively owned by local governments. Rather than SOEs, these TVEs could choose product lines, but due to the imperfect institutional environment, they had to find their own funding, materials, and distribution channels (Liao & Sohmen, 2001). However, the emergence of entrepreneurship was not completely accepted but sparked serious critiques from conservative forces that still remained in the communist ideology. Even though the emergence of entrepreneurship was officially approved, for fear of losing socialist political legitimacy, as a compromise, non-state-owned firms were restricted to play insignificant roles in the reformed economy. For private businesses, there were several regulatory restrictions, including that private businesses could not borrow money from banks, and private firms could only employ up to seven people (Zhou, 2009). This situation persisted through the first decade of the reforms (IFC, 2000).

Since 1988 and particularly after Deng Xiaoping's Southern Tour in 1992, the Chinese economy gradually reformed from a planned economy to a so-called socialist market economy, which gradually acknowledged the growing significance and legitimacy of private enterprises although not formally (formal legislation to remove the barriers related to entrepreneurial activities were promulgated in 1997, as discussed below). In addition, in the new socialist market economy, SOEs recognised their inefficiency and incredible waste (Liao & Sohmen, 2001). As a consequence, many SOEs were forced to downsize by the State in the late 1980s, which resulted in more people becoming unemployed. For those reasons, numerous people moved into entrepreneurship, either through economic force to engage in entrepreneurship or being motivated to engage in entrepreneurship. Statistically, between 1988 and 1995, 30 million self-employed workers emerged in rural China (Rozelle, Guo & Minggao, 1999).

### **2.4.3 1997-current: Removal of ideological discrimination on entrepreneurship**

The great effort in the development of entrepreneurship could be seen after the economic reform. The large number of private businesses outside the state-planned sector increased significantly in the twenty years after 1978, these firms supplied Chinese customers with much needed products (Krug & Polos, 2000). However, the restriction on private businesses were not completely removed since the conservative faction in the Chinese communist Party (CCP) considered private businesses as potential threats to the dominance, ideology, and even the administrative authority of the Party (Yang, 2002). It was not until 1997, when the regulatory discrimination against private entrepreneurship was formally removed during the 15<sup>th</sup> Party Congress of the CCP, which announced that the private sector would be considered as important as the public sector in the Chinese economy (Huang, 2005; Atherton, 2008). Additionally, CCP leaders further acknowledged the benefit that entrepreneurs could bring to China's economy (Hoogewerf, 2002). Since that time, private businesses have been considered equally significant as the public sector's (Atherton, 2008).

To further promote the legitimacy of non-state-owned businesses, private entrepreneurs were allowed to join the CCP in 1997 (Loyalka & Dammon, 2006; Zhou, 2009), which signalled that entrepreneurs were welcomed in the inner circle and upper echelons of the Party (Pomfret, 2001), and they started to gain more respect in the society (Loyalka & Dammon, 2006). In 2003, one of China's wealthiest private entrepreneurs was appointed as the Deputy Chairperson of an advisory body to the government of Chongqing, the first private entrepreneur to be assigned such a high position by the central government (Kshetri, 2007).

The changes of regulations and ideology facilitated the development of entrepreneurship and eased the entry of private businesses in the 1990s and 2000s (Zhou, 2011). More specifically, there were 24 million small independent firms by the end of 2005, and the number is increasing at a rate of 15 - 20 percent annually (Loyalka & Dammon, 2006). According to the data from the National Bureau of Statistics of China (2013), by now SMEs occupied over 98 percent of total enterprises in China, and this portion is more than 99 percent in the capital, Beijing.

## **2.5 Summary**

It is manifest from the above sections that the background of Chinese entrepreneurship differs from western countries regarding the economic structure, ideology, institution and culture, and more. From those differences, to select China as the context of study, understand the background of China is vital for this study. As one of the world's fastest growing transition economies, China has witnessed unprecedented transformation. Since the reform of the economy and the promulgation of the Open-door policy in the early 1980s, private business has grown tremendously. One reason for this rapid entrepreneurial development is due to the economic reform which created an impetus for liberalisation and deregulation of the capital markets, which resulted in Chinese entrepreneurial activities being permitted. Additionally, the high unemployment rate (Naughton, 2007) is another force to the rapid

development of entrepreneurship. Specifically, the high unemployment rate pushed people to become self-employed. When economic reform was initiated, China's economy was in the doldrums, which resulted in an impoverished citizenry. Most individuals started doing business almost from nothing.

However, as mentioned above, China's reforms are associated with a high degree of market imperfection. Specifically, there are many sectors still controlled by the state. As a result, private economic activities tend to be associated with a great deal of uncertainty. Even though the economy is perceived as having an incomplete legal system for market scrutiny purposes, and the private sector receives limited protection, this sector has surpassed the state sector in importance (Yueh, 2009). In spite of the immature market conditions, there is a growing segment of entrepreneurial activities that propel China to achieve notable growth rates. Other than institutional reasoning, typical Chinese culture also has an effect on doing business in China as the Chinese culture is different from that of western countries in numerous ways (Chen & Francesco, 2000; Child & Lu, 1996). These cultural characteristics also affect structure and decision making (Backman, 2001), interpersonal behaviour (Pye, 1972), and finally influence Chinese entrepreneurship development. From these perspectives, the development of business is somewhat different from western countries. As the entrepreneurship tenets and principles are basically western-dominated, it is therefore necessary to study entrepreneurship in the context of developing countries.

## **Chapter 3: Literature review and research framework**

### **3.1 Introduction**

This chapter reviews the literature that is related to the study of the transition from necessity-based start-up to subsequent opportunity-based entrepreneurship. There is not a consolidated definition of entrepreneurship (Cooper, 2003), although the discussion of entrepreneurship has been around since the eighteenth century. The earliest definition is proposed by Cantillon (1755), who referred entrepreneurship as self-employment of any sort. In early nineteenth century, entrepreneurship was then viewed as the bringing together of factors of production (Say, 1836). However, the earliest generally agreed definition by scholars was Schumpeter's (1934) definition of entrepreneurship. He stated that entrepreneurship is the carrying out of new combinations. It disrupts the market equilibrium, and its essence is innovation. Schumpeter (1934) also argued that entrepreneurial initiatives often result in innovations, which in turn may alter existing industries. From Schumpeter's perspective, entrepreneurs are those who initiate innovation in economic activities.

More recently, other definitions have been proposed by many scholars in different ways. Cole (1968) referred entrepreneurship as the purposeful activity to initiate, maintain, and develop a profit-oriented business. Differing from Schumpeter, Cole's view of entrepreneurship tended to base on the perspective of business profits. Then, Kirzner (1973) studied entrepreneurship from the view of opportunities and market balances. He stated that entrepreneurship is the exploration of opportunities with the ability to correctly anticipate where the next market imperfections and imbalances will be.

In 1980s, some scholars defined entrepreneurship as the creation of new ventures (e.g. Gartner, 1989; Low & MacMillan, 1988), in which scholars started to bring more theories from other related areas such as management, marketing, organisational behaviours into the study of entrepreneurship

(Morrish, 2008). The introduction of those disciplines into entrepreneurship studies thus facilitated a changing emphasis from mere economic perspectives to typologies, characteristics and processes.

Afterwards, many studies considered entrepreneurship as a dynamic, and entrepreneurship was viewed as a process of discovering opportunities (Bygrave & Timmons, 1992) and combining resources (Bygrave & Timmons, 1992; Stoner & Freeman, 1992) to achieve the objective of new venture creation. Although entrepreneurship has been examined from various views, the essential act of entrepreneurship is the new entry of a business which is seen as the act of launching a new venture including a start-up business or through internal corporate venturing (Lumpkin & Dess, 1996). This view seems to have a broad coverage and involves all those activities through which new ventures are created. This view will be adopted throughout the whole thesis.

Previous studies also paid much attention on entrepreneurial orientation which has emerged as a main construct within entrepreneurship literatures over the past two decades. Entrepreneurial orientation is defined as the processes, structures, and behaviours of firms that are characterized by innovativeness, proactiveness, and risk taking (Covin & Slevin, 1989; Miller, 1983; Stam & Elfring, 2008). Studies have suggested a positive linear relationship between entrepreneurial orientation and firm performance (e.g., Keh, Nguyen, & Ng, 2007; Lumpkin & Dess, 1996; Zahra & Covin, 1995). An entrepreneurial orientation may contribute to higher performance by facilitating a firm's capacity to identify innovative opportunities with potentially large returns, target premium market segments, and gain first mover advantages (Lumpkin & Dess, 1996; Wiklund & Sheperd, 2005).

In order to provide background to the present study, the following sections are organised to review related literature. The first section introduces theories of entrepreneurship by focusing on three main schools of thoughts, including neoclassical equilibrium theories, psychological theories and Austrian



theories. Then, the second section discusses different levels of analysis in entrepreneurship by mainly focusing on micro- and macro- levels of studies. The third section then discusses different typologies of entrepreneurship emphasising the dichotomy of necessity entrepreneurship and opportunity entrepreneurship. Then, related literature of the subsequent entrepreneurship is reviewed in section 4. Specifically, in section 4, research on the subsequent entrepreneurial process from initial to the subsequent venturing is reviewed. Entrepreneurial opportunities are discussed in this section through the application of the corridor principle, and entrepreneurial resources are discussed through the application of the effectuation theory. Then based on the discussion of related literature, section 5 proposes a research framework explaining the transition from necessity-based start-up to the subsequent opportunity entrepreneurship. The last section is the summary of this chapter.

### **3.2 Three main schools of thought of entrepreneurship**

To better understand entrepreneurship, it is essential to comprehend the nature of entrepreneurship. To date, research on entrepreneurship mainly falls into three schools of thought. The first school of thought is neoclassical equilibrium theories of entrepreneurship (Khilstrom & Laffont, 1979). This school of theory assumes that markets are composed of maximising agents whose collective decisions about prices clear markets. In the equilibrium theories, no one could find a misalignment that would create an entrepreneurial opportunity for profits, because at any moment, all opportunities have been recognised and all transactions have been perfectly coordinated. It does not allow individuals to perceive entrepreneurial opportunities that others do not perceive. Thus these theories explain entrepreneurship by identifying individuals who prefer to becoming entrepreneurs. For example, people with greater taste for uncertainty will choose to become entrepreneurs and people with a less taste for uncertainty will choose to become employees (Khilstrom & Laffont, 1979). Overall, equilibrium theories assume that all entrepreneurial opportunities can be recognised and the fundamental attributes of people are more important than opportunities to determine who becomes an entrepreneur.

Differing from the neoclassical theories that focus on the equilibrium of the market, the second school of thought was developed based on the perspective of psychology. These psychological theories propose that entrepreneurship is a function of characteristics possessed by some individuals but not others (Begley & Boyd, 1987; McClelland, 1961). These theories assume that enduring human attributes rather than information about opportunities determine who becomes an entrepreneur. These special enduring fundamental attributes of people demonstrate that entrepreneurs would be more likely to distinguish valuable information than non-entrepreneurs. Thus by perceiving valuable information, entrepreneurs are more capable to discover potential opportunities (Krueger, 2005). In this regard, these psychological theories suggest that entrepreneurs possess some unique psychological factors, and these factors are antecedents of opportunity recognition (Qing & Ling, 2010). Based on this thought, psychological traits, including the need for achievement, willingness to bear risks, self-efficacy and tolerance for ambiguity are the key factors that differentiate entrepreneurs from non-entrepreneurs. It is these particular personal characteristics that allow entrepreneurs to be able to involve in entrepreneurial activities by identifying and exploiting opportunities (e.g., Begley & Boyd, 1987; Brockhaus & Horowitz, 1986; Chen et al., 1998; Donatus, 2010; McClelland, 1961).

The third school of thought is Austrian theories. Differing from equilibrium theories, Austrian theories assume that the market system is not always at the equilibrium. Instead, a market would achieve equilibrium from initial nonequilibrium conditions (Kirzner, 1997). Specifically, a market was composed of individuals who possess different amounts of information (Hayek, 1945). The possession of idiosyncratic information allows individuals to perceive particular opportunities that others cannot perceive, even if they are not actively seeking such opportunities. The possession of different information leads individuals to see different values in a given good and offers different prices to get it. During this process, individuals can earn entrepreneurial profits or incur losses by purchasing or selling goods in response to the discovery of price misalignments. This process of decision-making about prices thus moves an economy from disequilibrium to equilibrium. Overall, Austrian theories assume that information about opportunities rather than human attributes determine

who becomes an entrepreneur. It provides an explanation about the entrepreneurial process through the utilisation of information to discover opportunities.

These three salient theories explain well who is more likely to become an entrepreneur and how likely entrepreneurial opportunities can be ascertained. Specifically, in neoclassical equilibrium theory, people with a great taste for risk choose entrepreneurship (Khilstrom & Laffont, 1979). Psychological theory suggests that individuals possessed certain unique characteristics are more likely to become entrepreneurs than others (McClelland, 1961) while the Austrian theories assume that people who see particular opportunities and information become entrepreneurs (Hayek, 1945; Shane, 2000). However, these theories merely outline the willingness of individuals to choose entrepreneurship and ignore the group of entrepreneurs who are forced to engage in entrepreneurship (Reynold et al., 2001). This leaves it unclear in relation to the conditions under which entrepreneurship could be initiated.

### **3.3 Levels of analysis in entrepreneurship research**

To better understand entrepreneurship, it is also significant to examine entrepreneurship from multiple levels because of the various characteristics of entrepreneurial phenomena (Davidsson & Wiklund, 2001). Entrepreneurship studies are carried out at different levels and it is argued that multiple levels of analysis complement each other (Davidsson & Wiklund, 2001). This is because entrepreneurship takes place and has impacts on different societal levels simultaneously. The earliest entrepreneurship theory introduced by Schumpeter (1934) had already linked the entrepreneurial initiatives of individuals to the creation of industries and the development of economies. After that, many scholars have conducted entrepreneurship studies from different levels of analysis (e.g., Carree & Thurik, 2003; Kirzner, 1973; Kuratko, 2005; Wennekers & Thurik, 1999), which contributed to increasing the understanding of entrepreneurship on different levels ranged from the individual to the economy-at-

large. In this regard, becoming involved in different levels of analysis plays an important role in entrepreneurship study, not only due to the study design but also for applying appropriate theories (Gartner & Brush, 1999). The following sections then discuss both micro- and macro- levels of entrepreneurship studies ranging from the individual level to economic level.

It has been discovered that micro-level analysis by analysing individuals firms and human beings dominates entrepreneurship research, and this dominance tends to increase (Davidsson & Wiklund, 2001). For individual levels of entrepreneurship studies, there are three main approaches including psychological traits approach, socio- demographics approach and behaviour approach. For the psychological traits approach, it suggests that entrepreneurs are different from non-entrepreneurs, because they possess several distinguished psychological characteristics making them more capable of discovering opportunities (Krueger, 2005). It is also argued that success in entrepreneurship is available through their efforts alone (Bonnett & Furnham, 1991). Although this psychological approach helps explain many entrepreneurial phenomena, it has been criticised by some scholars. Those critics argue that the focus on psychological traits of entrepreneurs might mislead the understanding of entrepreneurship and they suggested that more modern psychological theories are required to compare with non-entrepreneurs by using the psychological approach (e.g., Aldrich & Zimmer, 1986; Endres & Woods, 2006; Low & MacMillan, 1988).

Other than the psychological approach, entrepreneurship research of micro-level analysis also considers socio-demographic variables in the probability of being entrepreneurs (e.g., Aldrich, Renzuli & Langton, 1998; Hagen, 1962; Hoogendoorn & Van der Zwan, 2011; Stanworth & Curran, 1973). These socio- demographic variables include ages, gender, levels of education, and employment status of parents, which are useful to distinguish entrepreneurs from non-entrepreneurs groups (e.g., Aldrich et al., 1998; Grilo & Thurik, 2005; Reynolds, 1997). For example, Aldrich et al. (1998) have evaluated individuals who possess some specific socio-demographic variables are more likely to

become business founders. However these predictions about socio-demographics of entrepreneurs merely partially explain the reasons behind and more antecedents are required to consider into this entrepreneurial phenomenon.

Another approach is the behavioural approach. Instead of studying psychological traits or socio-demographic variables, this approach focuses on what entrepreneurs actually do through the process of launching new businesses (Bhave, 1994; Gartner, 1989). By applying this approach, what actions nascent entrepreneurs take to get their businesses set up (Reynolds, 1997) as well as the actions entrepreneurs take in the subsequent entrepreneurial activities (e.g. Hall, 1995; Morrish, 2008; Westhead & Wright, 1998) have been emphasised. Thus, following this thought, scholars start to evaluate entrepreneurship as a dynamic process rather than merely focus on who will become entrepreneurs or distinguish entrepreneurs from non-entrepreneurs.

In addition to individual-level analysis, micro-level analysis of entrepreneurship also emphasises the firm-level analysis (Davidsson & Wiklund, 2001). Differing from the individual level of entrepreneurship studies, firm level studies focus on entrepreneurial strategies. What entrepreneurial strategies can do for a venture has been a subject of much discussion (Kuratko, 2005). In this regard, management researchers have extended the scope of their interests to entrepreneurship studies and additional theoretical approaches have been brought into this field (Davidsson & Wiklund, 2001). One typical example is the introduction of resource-based view of the firm in strategic management into the study of entrepreneurship (e.g., Mosakowski, 1998).

Research of entrepreneurship has also been done at a macro level. In recent years, an elevated economic performance by ventures and regions has been positively affecting economic growth at the macro-level (Carree & Thurik, 2003; Kelley, Bosma & Amoros, 2010). The positive relationships

between economic growth at national, regional, and industrial levels have been found. Those regions with a higher rate of entrepreneurship are found to exhibit higher growth rates (Audretsch & Frisch, 2002; Siu & Klandt, 2000) and higher rates of new-venture birth positively impact productivity growth in industrial and regional levels (Acs & Audretsch, 1990; Callejon & Segarra, 1999; Hull & Hjern, 1987).

Researchers also pay much attention to the macro-effect of economy on entrepreneurship, mainly focus on three levels of analysis including industry level, regional level and national level (*e.g.*, Carree & Thurik, 2003; Davidsson & Wiklund, 2001; Keeble, Potter & Storey, 1990; Wennekers & Thurik, 1999). What characteristics regions or nations possess that has an impact on entrepreneurship are typical issues being studied. However, this type of study may lack generalisability. On the one hand, the entrepreneurial activities varies in different levels of economic development (Frese & De Kruif, 2000; Reynolds et al., 2001; Rosa, Kodithuwakku & Baswa, 2006), one the other hand, different nations or regions possess different institutional (*e.g.*, Baumol, 1990; Sobel, 2008; Zhou, 2011) and cultural (*e.g.*, Harper, 2003; Ahlstrom et al., 2010) environments, which should be considered when study their impacts on entrepreneurship.

### **3.4 Typologies of entrepreneurs**

Given the fact that entrepreneurs play significant roles in entrepreneurial activities, there is a growing call for entrepreneurship studies to be more emphasised the category of entrepreneurs (McMullen, Bagby & Palich, 2008; Timmons et al., 2004; Ucbasaran et al., 2001). In order to better understand entrepreneurship, there is a need to understand the heterogeneity of entrepreneur types (Westhead & Wright, 1998). In this regard, this section discusses typologies of entrepreneurs and the relationships between different types of entrepreneurship. The first part of this section presents the typology of entrepreneurs based on motivation. The second part discusses the typology based on intention and

experience. Then the third part discusses the typology based on ownership propensity. Based on these three main typologies, the last part of this section addresses the relationships between these different types of entrepreneurs.

### **3.4.1 Typology based on motivation**

Based on the motivations of entrepreneurs, necessity entrepreneurship and opportunity entrepreneurship are identified. In fact, there has been a move towards the use of terms including necessity entrepreneurship and opportunity entrepreneurship (Verheul et al., 2010). These two terms were initially introduced by Reynolds et al. (2001) in the Global Entrepreneurship Monitor 2001 (GEM, 2001) study. Necessity entrepreneurs refer to individuals who are pushed into entrepreneurship because all other options for work are either absent or unsatisfactory. Opportunity entrepreneurs refer to individuals starting a new business, which allow them to take advantages of a business opportunity and exploit a perceived business opportunity (Acs, 2006; Bosma & Harding, 2006; Reynolds et al., 2001).

These two concepts are distinguished by two different start-up motivations. Opportunity-based entrepreneurs are pulled into entrepreneurship because they recognise an opportunity that can maintain or improve their incomes or increase their independence (Kelley, Bosma & Amoros, 2010). Necessity entrepreneurs are driven to entrepreneurship by their needs for income or independence, and are therefore forced to turn to entrepreneurship in the self-employment form (Reynolds et. al, 2005). It is the need for survival that drives individuals to engage in necessity-based entrepreneurial activities (Kobia & Sikalieh, 2010).

Another definition of the two concepts is based on 'voluntary', which was introduced by Block and Wagner (2007). A necessity entrepreneur is defined as someone who has been in paid employment in the past but was either laid off or the place of work was closed and then became self-employed. While an opportunity entrepreneur is someone having left paid employment voluntarily to start his/her own business. Differing from Reynold's (2001) view of entrepreneurship, Block and Wagner's definition of entrepreneurship is based on the way individuals left employment. However, these definitions are not exhaustive since they only consider individuals who have previous paid employment experience and ignore those entrepreneurs who have never been employed by others. According to Sarasvathy (2004), necessity entrepreneurs include three sub-types: individuals who are fired from their jobs, individuals who are not satisfied with their jobs and individuals who are 'unhireable'. Sarasvathy's view of necessity entrepreneurs seems much more comprehensive than the one of Block and Wagner's, because the group of 'unhireable' is considered in Sarasvathy's classification. More discussions of necessity entrepreneurship and opportunity entrepreneurship are demonstrated in section 3.5.

### **3.4.2 Typology based on intention and experience**

Entrepreneurs were also investigated based on their intentions and experience in relation to entrepreneurship. MacMillan (1986) classified entrepreneurs based on entrepreneurial experience and he identified three types of entrepreneurs. The first type is termed as one-shot entrepreneurs. They are those who successfully establish a good business, but do not subsequently establish a new business. The second type is termed drop-out entrepreneurs, signifying those individuals who have successfully established businesses but might either sell them or be forced to leave the businesses they started. The last type is business generators. They are those people who either involved in different types of businesses or continuously initiated new businesses. Both the first and second types of entrepreneurs only possess the entrepreneurial experience of a single business, while the third type of entrepreneurs



possess multiple businesses and are generally known as multiple business entrepreneurs (Morrish, 2008). The reason to classify entrepreneurs into these three groups is that MacMillan argued that entrepreneurial experience should form the basis of entrepreneurship studies.

Building on MacMillan's (1986) view, a later classification based on intention and experience was termed by Hall (1995), who classified entrepreneurs into nascent entrepreneurs, novice entrepreneurs and habitual entrepreneurs. Similarly, Carter (1999) and Westhead and Wright (1998) also introduce a two type classification, including habitual entrepreneurs and novice entrepreneurs. Accordingly, nascent entrepreneurs refer to those individuals who are considering, but not yet established their own businesses. Novice entrepreneurs are those individuals who have just become self-employed by starting their first businesses. Whereas, habitual entrepreneurs have engaged in repeated entrepreneurial activities, which is similar to business generators clarified by MacMillan. However, this classification of entrepreneurs is also criticised by scholars who argued that novice entrepreneurship should be viewed as a stage rather than a category of entrepreneurs because novice entrepreneurs may either move on to stay in business as seasoned entrepreneurs or drop out the business they established (e.g., Morrish, 2008).

Thus, research on this typology based on intention and experience mainly focuses on examining habitual entrepreneurs. Evidences also demonstrate that habitual entrepreneurs are a large and important segment of the population of entrepreneurs in developed countries (i.e., Westhead et al., 2005). Scholars have evaluated the nature of these individuals' endeavours and the outcomes of this group. It has been found that compared with other types of entrepreneurs, habitual entrepreneurs can develop and accumulate more resources through repeated venture creation activities (Hsu, 2007; Morrish, 2008), secure funding with better terms (Kaplan & Stromberg; 2003), and having comparative optimism even though they have experienced some previous entrepreneurship failures

(Ucbasaran, Westhead & Wright, 2009). This suggests that there are more advantages of being involved in multiple entrepreneurial activities than that of one-shot venturing.

### **3.4.3 Typology based on ownership propensity**

Scholars also studied the characteristics and effects of independent business ownership of habitual entrepreneurs, and two types of habitual entrepreneurs were introduced, including portfolio entrepreneurs and serial entrepreneurs (Westhead & Wright, 1998). Portfolio entrepreneurs are those entrepreneurs maintain their original businesses while inherit, set up and/ or purchase another business, and possess more than one business at a time. In contrast, serial entrepreneurs are those who have sold their original businesses but at a later time inherit, set up, or purchase another business. In considering the full or partial ownership of a business, Westhead et al. (2005) later categorised portfolio as individuals who currently possess majority or minority equity stakes in two or more independent businesses that are either new, purchased and/ or inherited. Serial entrepreneurs are those who have sold/ closed a business in which they had a majority or minority equity stake in an independent business that is either new, purchased or inherited.

According to previous studies, these types of habitual entrepreneurs are prevalent. The study from Taylor (1999) demonstrated that the portions of habitual entrepreneurs were 38 percent, 42 percent and 49 percent in Malaysia, England and Australia respectively. This percentage was also found to rise with the increase of firm sizes in Rosa and Scott's (1999) study. In terms of portfolio entrepreneurs, Carter et al (2004) found that 8.52 percent out of total entrepreneurs in their sample were classified as portfolio entrepreneurs. However, among all portfolio entrepreneurs, a large amount of individuals (23.3 percent) depend on one business as main source of income. This implies that those entrepreneurs still keep less or even not-profitable businesses. According to Morrish (2008), this behaviour might be explained by the consideration of tax issue or entrepreneurs' personal habits. One

recent study also reveals that portfolio entrepreneurs have a greater probability of venturing success (Baptista, Karaöz & Mendonça, 2014) comparing with serial entrepreneurs. This is because portfolio entrepreneurs can deploy assets from their current firms into the new setup and thus they are less likely to face financial constraints to set up a new business than serial entrepreneurs. Similar results were also revealed in Parker's (2013) research. As can be seen, more resources possessed by business founders at the time of founding have a positive effect on the subsequent entrepreneurship.

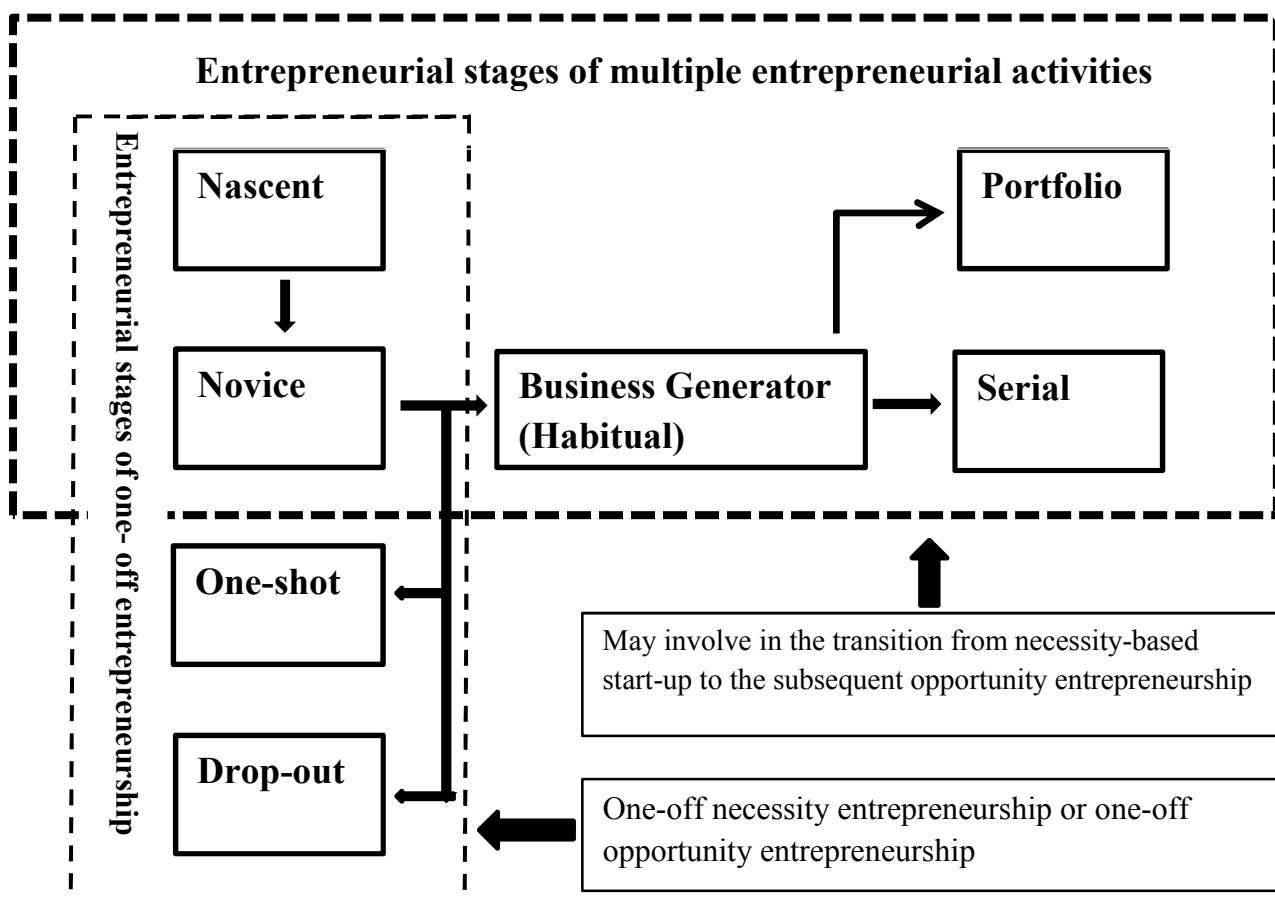
### **3.4.4 Relating different typologies of entrepreneurship**

As has been discussed in the sections above, entrepreneurs have been categorised differently according to their motivations, entrepreneurial intentions and experience, and ownership propensity. Different typologies have been investigated separately in previous literature, while little research has been done comparing different classifications or relating them to each other. The focus of the study is on entrepreneurship classification based on motivation including necessity entrepreneurship and opportunity entrepreneurship. To avoid confusion among these different classifications, the research discusses the different classifications and tries to identify relationships between semantic classifications since some concepts and entrepreneurship phenomena overlap.

Based upon the discussion of different classifications above, the researcher then maps entrepreneurial steps for both one-off entrepreneurship and subsequent entrepreneurship. As can be seen in Figure 3-1, both subsequent entrepreneurship and one-off entrepreneurship start with nascent and novice stages. For subsequent entrepreneurship, entrepreneurs who prefer to involve in more venturing activities start follow-up businesses in the way of either portfolio or serial entrepreneurship. While for the one-off entrepreneurship, entrepreneurs either stay in the original businesses or drop out of businesses. In considering necessity entrepreneurship and opportunity entrepreneurship in the context of one-off and multiple entrepreneurial activities, it is revealed that one-off entrepreneurship can be either necessity

entrepreneurship or opportunity entrepreneurship. The multiple entrepreneurial activities may involve in the transition from necessity-based start-up to the subsequent opportunity entrepreneurship. This is demonstrated in Figure 3-1.

**Figure 3-1: Entrepreneurial steps of one-off and multiple entrepreneurial activities**



### 3.5 Comparison of necessity entrepreneurship and opportunity entrepreneurship

Researchers also study the difference (Minniti et al., 2005; Smallbone & Welter, 2004) and the impact (Jorn & Philipp, 2009) of necessity entrepreneurship and opportunity entrepreneurship. Previous research showed that it is meaningful to distinguish necessity entrepreneurship and opportunity

entrepreneurship for several reasons including the difference of forces (e.g., Bhola et al., 2006; Johnson & Darnell, 1976; Uhlaner & Thurik, 2007), start-up motivations (e.g., Block & Wagner, 2007; Block & Koellinger, 2009; Reynold et al., 2001;), the difference of socio-economic characteristics (e.g., Amit & Muller, 1995; Block & Wagner, 2007; Reynold et al., 2001), and outcomes (e.g., Harding, 2003; Minniti et al., 2005). These differences are therefore discussed in the following sections.

### **3.5.1 Push and pull motivations**

The distinction between necessity entrepreneurship and opportunity entrepreneurship is linked with the dynamics of push and pull forces (Bhola et al., 2006). The push-pull model was initially developed and tested by Johnson and Darnell (1976) to identify the explanatory factors of new venture creation. The starting point is the assumption that the creation of new venture supports the shift from unemployed to self-employed status. Such a process is made when payoffs from being self-employed surpass those derived from being an employee or unemployed. The trigger for the decision to move from being employed or unemployed to self-employment is then linked with two types of forces, push and pull. A push dynamic happens when entrepreneurs have a conflict with present situations, or there are no other options available for the entrepreneurs, while a pull dynamic occurs when there are alternative sources of profits for individuals (Uhlaner & Thurik, 2007).

For the push factor, Individuals are forced into entrepreneurship because they do not have other choices, such as people in low-income jobs or even joblessness. In order to make just enough to live, they are thus driven and forced to turn to entrepreneurship in its self-employment form as their last resort (Serviere, 2010). In this regard, they are often in a less favourable position than other entrepreneurs to carefully plan their new initiatives (Block et al., 2014). Thus, they have few growth prospect and growth intention before becoming self-employed and a majority of them are just looking

to safeguard their own income or for survival (Bergmann & Sternberg, 2007; Block et al., 2014). Those individuals who are ‘pushed’ into self-employment are usually termed necessity entrepreneurs.

Pull factors refer to the expectation of being better off as entrepreneurs by perceiving an economy producing entrepreneurial opportunity (Bhola et al., 2006; Uhlaner & Thurik, 2007). Opportunity entrepreneurs are pulled into entrepreneurship because they recognise opportunities that can maintain or improve their incomes or increase their independence (Kelley et al., 2010; Knight, 1987). In considering opportunity entrepreneurship, there are three primary identifiable drivers including people who choose to involve in entrepreneurship for increased incomes, independence and simply maintaining income. Those opportunity entrepreneurs who indicate the main reasons for entrepreneurship are for increasing incomes or being independent are further labelled as improvement-driven opportunity entrepreneurs (Bonnett, 2008). According to Kelley’s et al. (2010) global survey of entrepreneurs, the improvement-driven opportunity entrepreneurs represent over three fifth of total entrepreneurs.

### **3.5.2 Socio-economic characteristics**

Necessity entrepreneurs and opportunity entrepreneurs also possess different socio-economic characteristics. Previous studies had dealt with push-pull dynamics depending on the individual gender. It was revealed by Orhan and Scott (2001) that push dynamics such as boredom, frustration, and the absence of promotion in professional life preceding self-employment, are often present among females and that, unlike their male counterparts, push factors seem to outweigh pull factors.

Reynold et al. (2002) found that, in terms of age, opportunity entrepreneurs are found to be older (35-44 years) than necessity entrepreneurs (18-24 years). A plausible explanation is that the opportunity

entrepreneurship usually requires a larger amount of set-up capital than that of necessity entrepreneurship and age is a proxy for personal wealth, where the older a person is, the longer is the potential period to accumulate wealth. In contrast, other researchers argue that youth is more likely to be associated with opportunity entrepreneurship (Block & Sander, 2009; Bhola et al., 2006; Block & Wagner, 2007; Wagner, 2005). By studying the entrepreneurial activities in Germany, Wagner (2005) found that the average age of nascent opportunity entrepreneurs is the youngest, which is 37.5, compared with those of nascent necessity entrepreneurs (40.0) and paid employees and unemployed (41.0). However, the study of Bergmann and Sternberg (2007) found that age has no impact on the probability of becoming entrepreneurs. These studies have thus led to contradictory conclusions. These inconsistent results might be explained by that those studies were conducted in different contexts and time. Thus the results might be influenced by different variables including social elements and institutions.

When considering family background and impacts, it has been observed that self-employed parents have some influences on setting up a business (Burke, Nolan & FitzRoy, 2008; Cooper, 1993; Hout & Rosen, 2000). According to Hout and Rosen's (2000) study, the family background is found to be a reliable predictor of entrepreneurship, and individuals are more likely to become entrepreneurs with the support of self-employed parents. These impacts were then found more obvious on opportunity entrepreneurship than that on necessity entrepreneurship (Bhola et al., 2006; Verheul, 2010; Wagner, 2005). These impacts from self-employed parents also contribute to the argument on whether entrepreneurs were born or made, and consistent with most findings that individuals could learn to become entrepreneurs (e.g., Bernstein, 2011).

The joblessness variable was found to have a positive impact on the probability of both necessity entrepreneurship and opportunity entrepreneurship and this impact seems a predominant feature among necessity entrepreneurs (Block & Wagner, 2007; Wagner, 2005). The data from Wagner

demonstrates that about one in two among the nascent necessity entrepreneurs is unemployed. In contrast, this proportion is only one in five among the nascent opportunity entrepreneurs. This further confirms that unemployment is a key factor ‘push’ individuals into necessity entrepreneurship.

Education levels also appear to have some impacts on different types of entrepreneurship. Most studies demonstrate necessity entrepreneurs’ education levels are lower than average entrepreneurs (e.g., Bergmann & Stemberg, 2007; Block et al, 2014; Wagner, 2005). The impacts of education level on different types of entrepreneurs are also different. It is found that higher education matters for opportunity entrepreneurs but not for necessity entrepreneurs (Bergmann & Stemberg, 2007). Specifically, the number of professional degrees is noticeably positively related to being a nascent opportunity entrepreneur, but its effect on being a nascent necessity entrepreneur is limited (Wagner, 2005). By contrast, necessity entrepreneurs with sparse human capital (many of whom cannot therefore find employment) are unlikely to have the special knowledge, education, or skills needed to design and produce differentiated offerings, for example, via innovative technologies or designs, or superior quality (Miles and Snow 1978).

### **3.5.3 Outcomes**

In view of the different characteristics between these two types of entrepreneurship, it is argued that opportunity entrepreneurship is a ‘first best’ entrepreneurship and necessity entrepreneurship is a ‘second best’ entrepreneurship (Henrekson, 2004). It seems that opportunity entrepreneurship is more desirable than necessity driven entrepreneurship since opportunity entrepreneurship has a lower rate of early-stage business failure (e.g., Harding, 2003; Minniti et al., 2005). Opportunity entrepreneurs also earn significantly more than necessity entrepreneurs (Block & Wagner, 2007). One plausible explanation is that opportunity entrepreneurs are more likely to have the special knowledge or skills



needed to design and produce differentiated offerings which generate a higher margin. Similar arguments are also provided in a recent study conducted by Block et al. (2014).

At the macro level, necessity entrepreneurship has little effect on economic development and technological change while opportunity entrepreneurship had a positive effect (Acs & Varga, 2005; Acs, 2006). Specifically, in regard to job creation, opportunity entrepreneurs are more likely than necessity entrepreneurs to expect their firms to recruit more than 20 people within the next five years, while necessity entrepreneurs tend to have fewer employees comparatively (Poschke, 2010; Reynold et al., 2012). Nonetheless, this is not to say necessity entrepreneurship does not have any benefits to the economy. According to the GEM (2010) report, in many cases those businesses founded by necessity entrepreneurs can further evolve into the next stage and provide job opportunities to the public. In this regard, many scholars state that rather than supporting opportunity entrepreneurship, it is also significant to assist the development of opportunity-based necessity-based businesses (e.g., Harding et al., 2005; Williams & Round, 2009).

The ratios of necessity entrepreneurship and opportunity entrepreneurship are related to different stages of economic development. Evidences illustrate that in transitional economies, the ratios of necessity entrepreneurs to opportunity entrepreneurs are higher than western advanced economies (Harding, 2003; Kelley, Singer & Herrington, 2012). Specifically the GEM (2005) report indicated that in developed countries, opportunity entrepreneurship comprised approximately 70 percent. While in developing countries such as China, the portion of necessity entrepreneurship is 53 percent. This is because developing countries are in the early stages of development and their competitiveness primarily relies on low value-added products or low-cost efficiencies in goods production (Acs, Desai & Hessels, 2008). It is less complex and costly to set up a simple venture such as a small grocery or a street vendor. Consequently these tend to comprise a larger share of necessity entrepreneurship than opportunity entrepreneurship. However, in more developed or industrialised nations, the share of

necessity entrepreneurs is smaller since marginal managers can earn more when they are employed than when being self-employed (Acs et al., 2008).

The other reason that necessity entrepreneurship represents a small portion of total entrepreneurial activities in developed countries is related to the welfare system (Frese & De Kruif, 2000). The reason of unemployment does not necessarily encourage a jobseeker to start entrepreneurship as individuals are well protected by the welfare system. However, the situations are different in developing countries since most developing countries are impoverished and lack comprehensive social safety net and protection (Frese & De Kruif, 2000). People are more likely to be driven by poverty, survival, and the lack of work choices, which force them to become self-employed (Rosa et al., 2006).

Overall, literature shows that previous research mostly followed a similar track and mainly focused on the distinction of necessity entrepreneurship and opportunity entrepreneurship and most discussions were based on that distinction. Research revolving discussion of the ratio of necessity entrepreneurship to opportunity entrepreneurship in different populations has therefore become a common theme (Harding, 2003; Harding et al., 2006; Maritz, 2004; Minniti et al., 2005; Perunovic, 2005). Although, most of these studies demonstrate that opportunity entrepreneurship is a more desirable type of entrepreneurship than necessity entrepreneurship, there still exists a research gap on the exploration on the transition from necessity entrepreneurship to subsequent opportunity entrepreneurship, let alone its process.

### **3.5.4 Rationale of the typology**

It seems that the concepts of necessity entrepreneurship and opportunity entrepreneurship have unanimous support from entrepreneurship researchers because of the capacity to bring together the

two profiles of entrepreneurs coherently (Acs et al., 2008; Gurtoo & Williams, 2009; Hessels, Gelderen & Thurik, 2008). A recent study by Williams and Williams (2011) has challenged the typology, stating that the categorizing practice of entrepreneurship, necessity driven and opportunity driven, is misleading not only due to the co-existence of both drivers but also the motivation shifts from necessity factors to opportunity factors.

For the issue of co-existence, Williams and Williams (2011) criticised that starting up rationales might include both necessity reasons and opportunity reasons and therefore, the concepts of necessity entrepreneurship and opportunity might be misleading. However, based on Renold et al.'s (2001) definitions of necessity entrepreneurship and opportunity entrepreneurship, this argument is incorrect. According to Renold et al.'s (2001) technique on distinguishing necessity entrepreneurs, only one question is used in his method: Do you start a business because you cannot find other options to work? If the answer is yes, then no matter other reasons, they should be deemed as necessity entrepreneurs. Admittedly, necessity entrepreneurs may also perceive opportunities when they start their businesses. However, for necessity entrepreneurs, the main driver must be the forces that encourage them to involve in entrepreneurship. The issue of the co-existence of motivations that is misleading is also found in the GEM reports (2007 & 2008). Reports show that some necessity entrepreneurs also consider themselves as opportunity entrepreneurs because they are operating somewhere between these two extremes. In other words, when some necessity entrepreneurs set up businesses, they also perceive an opportunity somehow as demonstrated in the GEM survey (2007 & 2008).

Therefore, to avoid misunderstanding the category of entrepreneurship based on motivation, necessity entrepreneurship and opportunity entrepreneurship need to be defined more precisely. Bhola et al. (2006) and Uhlaner and Thurik (2007) have done well in this regard. They argued that those individuals who do not have other choices to work and who are forced to become self-employed are necessity entrepreneurs, even though they perceive opportunity in setting up businesses. On the other

hand, opportunity entrepreneurs are thought as individuals who are pulled to start a new venture because they can take advantages of business opportunities. Following this thought, necessity entrepreneurs can be better distinguished from opportunity entrepreneurs.

Considering the motivation shift from necessity factors to opportunity factors over time, Williams and Williams (2011) also criticised the classification of necessity driven and opportunity driven entrepreneurship. Admittedly, in the view of the entrepreneurial process, motivation might shift overtime, but this classification should not be denied for this reason. According to Reynolds et al. (2001), this classification is based on the motivations at the starting stage but ignores the subsequent entrepreneurial process. However, the argument about the typology from Williams and Williams also identify the insufficiency of the entrepreneurship process research, which also pointing out the gap existing and form the impetus to study the shift of entrepreneurial motivations in subsequent entrepreneurial activities.

### **3.6 Subsequent entrepreneurship**

As discussed in Section 3.4, previous studies focus on intention and entrepreneurial experience (MacMillan, 1986) and ownership propensity (Westhead & Wright, 1998) to distinguish different types of entrepreneurship. However, little research has considered necessity-push and opportunity-pull motivations in subsequent entrepreneurial activities. According to Granger et al. (1995) and Hinz and Jungbauer-Gans (1999), self-employment which begins as a reluctant choice, may evolve into desirable alternative over time, suggesting that the necessity of entrepreneurship is a dynamic phenomenon. As this is related to the current study, this dynamic process of subsequent entrepreneurship will be reviewed comprehensively in the following sections.

Even though starting up a business based on necessity rather than out of a desire to seek a business opportunity contributes to lesser satisfaction in the entrepreneurial career (Block & Wagner 2006; Galbraith & Latham 1996), the negative impact of necessity on satisfaction lessens when the individual is satisfied with their self-employed life. Previous studies also revealed that the self-employed individuals in general express higher levels of satisfaction than do employees (Benz & Frey 2004; Blanchflower & Oswald 1998; Finnie, Laporte & Rivard, 2002; Hundley 2001). In this regard, when individuals earn satisfactory incomes through self-employment based on necessity start-up, they are more likely to prefer to stay in business and be involved in additional entrepreneurial activities. Many entrepreneurs create subsequent ventures soon after starting their first ventures. Evidence further shows that around one-third of entrepreneurs start a second business within three years and more than half entrepreneurs have a second business within six years (Ronstadt, 2007). This group of entrepreneurs is usually satisfied with self-employment, negative effects of necessity-based start-ups on further entrepreneurial activities diminishes and they might evolve into a desirable alternative over time (Granger et al., 1995; Hinz & Jungbauer-Gans, 1999; Kautonen & Palmroos, 2010). Consequently, when new business opportunities emerge, some of them seize it and become involved in subsequent entrepreneurial activities. This ubiquitous phenomenon associated with opportunity recognition and the creation of subsequent ventures was explained by the corridor principle (Ronstadt, 1988; Ronstadt, 2007).

### **3.6.1 Corridor principle**

The corridor principle is proposed firstly by Ronstadt (1988) stated that the mere act of starting a venture allows entrepreneurs to see more venture opportunities that they could neither perceive nor exploit unless they had started their initial ventures. In Ronstadt's (2007) study, the corridor principle is described as follows:

*The corridor principle is a particular set of venture opportunities perceived by entrepreneurs which often leads to the creation of a follow-on start-up. These particular opportunities occur due to the earlier business generating new knowledge about consumers, suppliers, technologies and emerging trends, as well as the capabilities and interests of the entrepreneurs themselves. New venture opportunities are perceived through the new knowledge possessed by entrepreneurs; they could not have seen or pursued these opportunities without having started an earlier venture. (Ronstadt 2007, p.248)*

The focus of the corridor principle is to explain the prevalent phenomena associated with opportunity recognition and the establishment of subsequent ventures. Moving down the corridor (existing businesses), entrepreneurs reach a point where they can see intersecting corridors (new venture opportunities). However, this does not mean that everyone can identify new venture opportunities. Some may ignore and others may recognise opportunities but reject them (Ronstadt, 2007). It seems that this principle does not apply to every entrepreneur since some entrepreneurs are reluctant to consider a subsequent venture and happy to stay with their existing ventures. Some even drop out their existing businesses and re-join the labour market. Consequently, the corridor principle is more appropriate to explain multi-venture entrepreneurship (Westhead, Ucbasaran & Wright, 2009). However, even applied in the multi-venture context, still it is unknown that who would take advantages of additional opportunities down the corridor and how new entrepreneurs would follow this path (Morrish, 2008). Furthermore, in regard to corridor experience, this principle is also criticised because it is argued that the setting-up of the initial venture is the only condition for opportunity identification and recognition. This view merely emphasises the corridor experience but ignores other factors that lead to venture creation (Block & Wagner, 2007).

Similarly to Ronstadt's (1988) corridor principle, Venkataraman (1997) then proposed a model of knowledge corridor. He argued that each person develops a knowledge corridor that enables one to see the potential benefit of opportunities because one has existing frames of reference which could

allow them to interpret the opportunity. The model of Venkataraman provides an alternative explanation for why some entrepreneurs often continuously establish multiple new ventures over time. Both Ronstadt's and Venkataraman's theories were then confirmed by studies which found that a large amount of follow-up venture opportunities can be perceived through entrepreneurs' previous entrepreneurial experience (Hills, Lumpkin & Singh, 1997; Lynskey, 2004; Westhead, 2009). Such findings were also consistent with Stinchcombe's (1965) notion of the 'liability of newness' that subsequent ventures tend to be established by identifying opportunities from entrepreneurs' previous relevant experience.

In addition to explaining the causal relationship between establishing the initial venture and opportunity recognition, the association of entrepreneurial career length and the creation of multiple ventures are also examined by Ronstadt (1988). By studying over a thousand entrepreneurs, he concluded that entrepreneurship is a dynamic process through which multi-ventures can be established. Entrepreneurs have a longer entrepreneurial career when they become involved in at least a second venture. He also argued that the multiple venture creation is a more common entrepreneurial phenomenon than the single venture notion that is generally highlighted. However, in Ronstadt's (1988) study, little discussion has been found as to whether or not the initial venture would be continued after the setting up of the second venture. The impact of the initial venture on subsequent ventures also remains unclear.

Overall, although there are some deficiencies in the corridor principle when applied in some contexts, this principle offered an explanation for subsequent venture creation by suggesting factors which allowed the recognition of opportunities. According to the principle, entrepreneurs may anticipate what is likely to happen and therefore identify venture opportunities. This implies that individuals may need to get to markets as early as possible so that a deeper, more relevant learning process could be done and knowledge could be accumulated for further entrepreneurial activities (Ronstadt, 2007).

Once this learning process starts, entrepreneurs can improve their existing businesses and even identify new entrepreneurial opportunities (Ronstadt, 2007; Westhead, 2009).

Although necessity entrepreneurs are initially forced to become self-employed, this does not mean they do not have a chance to be more successful or that they cannot make remarkable achievements in the future after the fashion of some current ‘celebrity’ entrepreneurs. According to the corridor principle (Ronstadt, 2007), once a venture has been started by necessity entrepreneurs, they may move down a corridor and reach a point at which they could see intersecting corridors, leading to the identification of new opportunities and additional businesses.

### **3.6.2 Opportunities**

The corridor principle links entrepreneurial opportunity recognition with follow-up entrepreneurship and elucidates at what stage opportunities are identified. However, this principle does not clarify where these entrepreneurial opportunities originate and how they emerge. Since the opportunity recognition is considered as a prerequisites for entrepreneurship and are the heart of the entrepreneurship process (Zacharakis, Spinelli & Timmons, 2011; Zott & Amit, 2007), comprehending the discovery of opportunities is crucial.

Entrepreneurial opportunities in the Schumpeterian sense are new combinations of productive means including (1) the introduction of a new good with which consumers are not yet familiar; (2) The introduction of a new method of production which is not yet tested; (3) The opening of a new market that has not previously been entered; (4) The conquest of a new source of supply of raw materials or half-manufactured goods, irrespective of whether this source already exists or not; and (5) The carrying out of new organisation of any industry, like market restructuring (Schumpeter, 1934).



According to Schumpeter's viewpoint, the key of an entrepreneurial opportunity lies in innovation, for which new combinations take place, thus resulting in a discontinuous, revolutionary change.

Following a similar line of thought, Shane and Venkataraman (2000) defined opportunities as situations in which new goods, raw materials, organising, services and marketing methods can be introduced through the formation of new means, ends, or means-ends. Moreover, based on Schumpeter's (1934) thought, Shane (2003) argued that the changes in technology, political forces, regulations, macro-economic factors and social trends may lead to opportunities which the entrepreneurs can utilise to recombine resources into more valuable forms. The change in equilibrium price of resources may allow entrepreneurs to purchase resources at lower prices, or recombine them into a more valuable form. This may allow the entrepreneurs to sell their products to achieve profits (Shane & Venkataraman, 2000).

Shane and Venkataraman (2000) also suggested that opportunities can be discovered from new products, new markets, new raw materials and new managements. In terms of new products, the development process of new products is viewed as a process to acquire new information (Clark & Wheelwright, 1993). There are four steps involved in new product development, including conception generation, product planning, product engineering and manufacturing engineering. New products could be created in different forms including upgrades, extensions of existing products and modifications which are new to firms, markets, or even the world (Li & Atuahene-Gima, 2001). New product introduction is important to firms' growth and prosperity (Cooper & Kleinschmidt, 1987). The development of new products is a process with the growth of business. Firms need to create new products in order to respond to changing market circumstances (Teece & Pisano, 1994). Entrepreneurs and innovators often approach new product development with great enthusiasm, hoping to be more successful (Udell, & Hignite, 2007).

For the impact of changing market demand on the discovery of opportunities, research has shown the positive relationship between the market change and the entrepreneurial opportunity discovery (Acs & Audretsch, 1989; Highfield & Smiley, 1987; Shane, 2000; Shankar & Carpenter & Krishnamurthi, 1999). According to Kirzner (1997), customer preferences may change over time in the market. Changes of demands due to shifts in culture, tastes, moods, or perception of the customers can create opportunities. In order to respond to changing markets, Shane (2000) found that the prior knowledge is significant to the process of entrepreneurial opportunity discovery in the changing market, including prior knowledge of markets, prior knowledge of ways to serve markets and prior knowledge of customer problems. This finding is also consistent with the essence of Austrian Theories (Hayek, 1945; Kirzner, 1973) that the possession of information leads to discovering the opportunity in the changing market.

Schumpeter (1934) suggested that opportunities can be discovered from the creation or finding of new raw materials. Raw materials are the basic materials from which products are manufactured or made. Contemporary industries also consider the role of intermediate goods as important as that of raw materials. Intermediate goods are goods utilised as inputs to produce other goods, usually used in production of end-use goods. Since intermediate goods are horizontally differentiated from end-use goods, both intermediate goods and raw materials are considered as material inputs for production (Luthje, 2003). The conquest of a new source of supply of raw materials results in new opportunities (Eckhardt & Shane, 2003).

Opportunities can also be discovered from new managements (Shane & Venkataraman, 2000). The introduction of new management practices is an important issue for firms as they seek to upgrade their productivity, improve the quality of customer offerings and retain competitiveness (Ichniowski, Shaw & Crandall, 1995; Pil & MacDuffie, 1996). New management is mainly in two forms. One refers to a practice or structure that has no known precedent (Abrahamson, 1996; Chandler, 1990; Hamel, 2006).

The other refers to something that is new to the firm and is adapted from another context such as a peer firm (Stjernberg & Philips, 1993; Zbarack, 1998). However, both approaches fit under the banner of management innovation (Mola & Birkinshaw, 2009), showing that opportunities from new management is also results of innovation (Gaglio, 2004).

Even though previous studies have reached an agreement on where opportunities originate (e.g., Schumpeter, 1934; Shane & Venkataraman, 2000), they have difficulties in reaching a consensus over whether the opportunity discovery is a flash of insights or a deliberate process. The proponents of viewing opportunity discovery as a flash of insights state that finding a lucrative opportunity is a flash of insights because it is impossible to search systematically for unknown discoveries (Kirzner, 1997; Teach, Schwartz & Tarpley, 1989; Shane, 2000; Shane & Venkataraman, 2000). Specifically, the study conducted by Teach et al. (1989) shows that applying systematic approaches to searching for opportunities were less effective and new ventures that were established on accidentally discovered opportunities possessed better business performance than those from firms with more formal search and planning.

The view of a flash of insights on opportunities was not supported by some empirical studies which suggest entrepreneurs who search information deliberately for entrepreneurial opportunities are more likely to identify opportunities than people who do not (e.g., Gilad, Kaish & Ronen, 1989). In Gilad et al.'s (1989) study of 86 self-employers and 21 managers, it was found that entrepreneurs were more likely to involve in searching for lucrative opportunities than managers. Similar results were also found in Kaish and Gilad's (1991) study which showed that entrepreneurs were more likely to spend efforts on information searching through various sources than managers and thus more likely to perceive business opportunities. Another empirical research conducted by Hills et al. (1997) found that the opportunities discovery is nothing but a process. By studying 190 entrepreneurs in Chicago, they found that over 90 percent of entrepreneurs agreed that discovering opportunities

involved several learning steps over time, rather than a one-time occurrence. This indicates that opportunity discovery cannot be realised by once-off flash of insights, rather, it must move through a structured process, and this process is how individuals act alone, or perceive unseen or unknown methods to create a new mean-ends framework (Eckhardt & Shane, 2003).

Overall, since opportunities recognition and discovery are viewed as prerequisites for entrepreneurship, understanding the mechanics behind this process is vital. Existing studies have revealed where opportunities originate and how they emerge (e.g. Shane & Venkataraman, 2000). However, whether the recognition of opportunities is a deliberate and structured discovering process remain highly debated (Hills et al., 1997; Shane, 2000), which also calls for more examinations (Shane & Venkataraman, 2000).

### **3.6.3 Effectuation theory**

The evaluation of effectuation theory in the subsequent entrepreneurship study has gained popularity and recognition in the past few years (Sarasvathy 2001; Morrish, 2008). Effectuation was induced from empirical studies of entrepreneurship as a form of expertise, which has become more popular and recognised in entrepreneurial studies (Sarasvathy, 2001). Effectuation theory is a collection of non-predictive strategies that are primarily means-driven (Morrish, 2009). This theory was originally developed by Sarasvathy and Simon (2000) as a dynamic and interactive process of creating new artefacts in the world. Effectual reasoning is a type of human problem solving that views future as fundamentally unpredictable, yet controllable through human action, the environment as constructible through choice and goals as negotiated residuals of stakeholder commitments rather than as pre-existent preference orderings (Morrish, 2008; Morrish 2009).

Effectuation theory is usually discussed and compared to causation theory in the study of entrepreneurship. Effectuation theory is more based on the logic of control and simply conceptualised as that one needs not predict the future to the extent that one can control the future. Causation theory is based on the prediction logic that one can predict the future while not needing to control it (Sarasvathy, 2001). In effectuation theory, entrepreneurs are supposed to begin with what they can utilise, such as resources. Goals are not pre-determined since businesses are usually operated in uncertain environments. For causation, individuals often begin with pre-determined goals such as predictive rates of return or the amount of sales. Therefore, the adoption of effectuation within entrepreneurial setting means the decision-makers can change their goals and even shape and construct them over time, hence that ability to control the future rather than to predict it (Morrish, 2008).

According to Sarasvathy (2001), there are three main principles of effectual logic embodying this logic of control. The first principle is 'affordable loss, rather than expected gains.' Instead of expecting the return rate or market share, this principle focuses on affordable loss and emphasises the identification of customers first. However, in causal reasoning, the focus is on competitive analysis and trying to outdo the competition. The second principle is 'partners rather than competitive analysis.' Effectuation reasoning is established on alliances and partnerships with networks while causal reasoning focuses on defeating rivals by analysing competitive markets. The last principle is 'leveraging contingencies rather than avoiding them.' Entrepreneurs may explore contingencies such as that new business ideas are launched prior to worrying about who the customer is. In contrast, the causal thinking mainly emphasises the exploitation of existing knowledge of firms, markets or customers and utilising this to pursue pre-determined goals.

However, later studies found that not all of these three principles of effectual thinking are significantly related to new venture establishment. According to Morrish's (2009) study, the two principles of affordable loss and leveraging contingencies are significant in the process of establishing subsequent businesses while the principle of taking on strategic partners, in another word 'network',

does not play an important role. This might be caused by the context of developed country in Morrish's study. Further studies focused on developing countries such as China might shed more light on this understanding. Inconsistent with Morrish's findings, Read et al. (2009) found that two principles including partnership and leverage contingency are positively related to new venture performance, while the principle of affordable is insignificant. This insignificance might be explained by that Read et al.'s (2009) study was not able to examine the association between risks and new products since it was unclear how the entrepreneurs managed the new product risks.

Research also found that novice entrepreneurs and experienced entrepreneurs used different logics for decision-making. Novice entrepreneurs tend to use a causal frame for decision-making in new venture creation, while experienced entrepreneurs use an effectual logic (e.g., Dew et al., 2009; Read et al., 2009). One plausible explanation is that the decision about a new venture is formed differently between experienced entrepreneurs and novice entrepreneurs. Novices do not possess prior entrepreneurship experience so that they tend to 'go by the textbook' or use a predictive frame in the process of setting up new businesses (Dew et al., 2009).

Those necessity entrepreneurs who are later involved in subsequent venturing can be deemed as experienced entrepreneurs rather than novice entrepreneurs, because they have repeatedly formed or created business ventures. According to Morrish (2008; 2009), effectuation is deemed to be a more suitable basis for studying experienced entrepreneurs. Whether experienced entrepreneurs apply the logic of effectuation in subsequent opportunity entrepreneurship remains unknown, which forms part of this study. As mentioned above, for effectual logic, existing studies still do not reach an agreement of the impacts of three embodied principles on the establishment of new venture. How effectuation theory works needs further investigation and how this theory is related to the transition process from necessity-based start-up to subsequent opportunity entrepreneurship is another key issue.

### **3.6.4 Resources**

Effectual thinking suggests that in subsequent entrepreneurial activities, entrepreneurs should start with what resources are available rather than predicting the future (Morrish, 2008; Morrish, 2009; Sarasvathy, 2001). With this in mind, it is important to comprehend what resources are available for entrepreneurs and how entrepreneurs accumulate resources for subsequent entrepreneurship.

Currently, available typologies of firm resources are very broad in scope. One widely adopted typology is Barney's (1995) distinction between different resources. He stated that a firm's resources include all of the financial, human, and organisational assets used by a firm to develop, manufacture, and deliver products to its customers. Barney further defined those specific resources. Human resources include experience, judgment, knowledge, risk-taking propensity, and wisdom of individuals associated with firms. Financial resources include retained earnings, debt, and equity. Physical resources are the manufacturing facilities, buildings, and machines used for operations. Organisational resources are the relationships, history, trust, and organisation, and other measurements. Based on Barney's (1995) definition, Timmons et al. (2004) and Wu (2007) further suggested that the important entrepreneurial resources are human, financial, and physical resources.

Timmons et al. (2004) suggested that people, both inside and outside of a business, could be human resources. They also stated that for insiders, the entrepreneurial team can be a determinant of new venture creation. Teams are a special kind of group of which members are closely connected with each other, and are characterised by engagement and commitment (Katzenbach & Smith, 2005). According to Cooney (2005), an entrepreneurial team can be two or more individuals who have significant financial interests in venturing and therefore participate actively in the development of the enterprise.

Existing research demonstrates that there is a growing trend in the literature that recognises the importance of entrepreneurial teams rather than individual entrepreneurs (i.e., Bamford et al., 2004; Eisenhardt & Schoonhoven, 1990). One plausible explanation is that the founding team possesses more industrial and entrepreneurship experiences as well as other collective knowledge, which are vital for setting up a new business (Leary & Devaughn, 2009). However, entrepreneurial teams do not exist before the start of entrepreneurial venturing. A team can only be formed and led by an entrepreneur or an entrepreneurial leader who exhibits both accomplishments and capabilities that attract management members or outsiders who are qualified to be team members. A study by Zacharakis et al., (2011) found that new ventures set up by teams are more likely to become sustainable businesses than those launched by individuals. This implies that an entrepreneurial team can be an important factor that leads to the creation and success of entrepreneurial businesses. However, necessity-based start-ups are unlikely to be initiated by entrepreneurial teams. According to Block et al.'s (2014) study based on Germany, only about 15 percent of necessity entrepreneurship was established by entrepreneurial teams while this figure is nearly 27 percent of all entrepreneurship. This partially explains the high failure rate of necessity entrepreneurship. In this regard, it is also vital for this research to evaluate the impacts of entrepreneurial teams on the subsequent entrepreneurial activities.

In order to evaluate team quality, several team characteristics are considered. Existing studies have argued that it is crucial to build an entrepreneurial team with complementary experience, knowledge, and skills, because the team experiences have some bearing on whether or not prospective new ventures successfully establish (Argote et al., 2003; Kumar & Ali, 2010; Leary & DeV Vaughn, 2009). Several research projects have found that past relevant industry specific experience is a hallmark of successful entrepreneurs (Cooper & Bruno, 1977). Another relevant team entrepreneurial experience is prior entrepreneurship founding experience. Previous studies have stated that the success of new businesses is fundamentally shaped by the prior founding experience (Baptista et al., 2014; Leary & Devaughn, 2009; Shane & Stuart, 2002). This is because prior founding experience of entrepreneurs



can help them raise start-up capital, and avoid outright failure of the prospective new venture (Shane & Stuart, 2002).

Outside human resources are also examined in existing research. Social networks, which are frequently referred to as *guanxi*, are considered as a crucial resource (e.g., Peng & Luo, 2000; Yueh, 2007; Zhao et al., 2010; Xin & Pearce, 1996). The collective cultural traditions and long historical legacy in China have heavily relied on inter-personal relationships as their core values (Yueh, 2007). However, such concepts as social network or relationships referred in existing research in western societies hardly capture the broad and deep meaning of *guanxi*. The meaning of *guanxi* is that a special personal relationship between two people in the Chinese context, which consists of connections that are defined by reciprocity and mutual obligation (Yu et al., 2013; Zhao et al., 2010). As a basic web of interpersonal relationship embodied in Chinese societies (Buckley et al., 2006), once *guanxi* is established, one can ask for favours from each other constantly (Xin & Pearce 1996). Extant research has also shown that this *guanxi* can help start a new business (e.g., Hoang & Antoncic, 2003; McNally, 2011; Yu, 2013). This is particularly true in the private sector, because individuals can receive required resources to set up business via this *guanxi* web and their businesses are more likely to evolve around it (Yu, 2013; Yueh, 2009). Therefore, it is meaningful to gain access to *guanxi* in order to establish or develop businesses in China (Peng & Luo, 2000; Xin & Pearce, 1996).

As to financial resources, previous studies have identified that financial resources are critical to the establishment of new firms and a lack of financial resources would be a constraint in this regard (Blanchflower & Oswald, 1998; Evans & Jovanovic, 1989). Financial support is more important in the early stage of the entrepreneurship process than in later stages (Timmons, 1985). Only with access to financial resources can entrepreneurial firms establish competitive capabilities and compete with their innovative and high-quality products and services (Greene & Brown, 1997; Wiklund & Shepherd, 2005). According to Zhang and Yang (2006), new venture financing can be sourced from

both single and multiple channels, including venture capitals, financial institutions, and entrepreneurs' social networks. It is interesting to note that, in China 19 percent of new ventures choose to finance from entrepreneurs' networks, while in western countries, only very few individuals receive this capital based on their social network (Zhang & Yang, 2006). A similar study also illustrates that novice Chinese entrepreneurs receive an appreciable amount of establishment capital from their intimate friends, partners, and trusted colleagues (Pistrui et al., 2001). On the one hand, this phenomenon might be explained by the imperfection of the Chinese institutional environment, thus individuals have difficult gaining access to bank financing for entrepreneurship (Talavera et al., 2012). On the other hand, Chinese entrepreneurs prefer to rely on *guanxi* as their main resources, so that they would tend to use this *guanxi* web to gain required resources (e.g., Yueh, 2007; Zhao et al., 2010).

The last type of resources is physical resources, which refer to any manufactured assets, such as machinery, vehicles, buildings or land (Barney, 1991). For businesses at their early stages, physical capital is normally scarce. However, physical capital is an important factor to fuel the development process of business venturing. The continuing operations of businesses also rely on increased amount of physical capital (Galor & Moav, 2004).

Overall, previous research has demonstrated that new ventures often fail to achieve high levels of business performance due to a lack of resources (Hitt et al., 2001). This situation of lacking resources is more obvious in necessity-based start-ups because necessity entrepreneurs have less time and fewer capital or knowledge-based resources available to them prior to entrepreneurship (Block et al, 2014). Therefore, during the running of necessity-based business, it is important for entrepreneurs to continuously establish and accumulate more resources (Serviere, 2010). According to Zhao and Hsu's (2007), entrepreneurs are able to acquire more resources by interacting more frequently with the external environment. However, in the context of transition process from necessity-based start-up to

subsequent opportunity entrepreneurship, which resources are most important, and how entrepreneurs access and utilise related resources remain unclear. This also calls for more evaluation on this issue.

### **3.6.5 The Process of entrepreneurship**

The study of entrepreneurial process is usually a keystone of debates on entrepreneurship (Moroz & Hindle, 2012). Given the purpose to identify and synthesise entrepreneurship determinants, researchers have studied entrepreneurship by examining the process and establishing models. Entrepreneurial process is a new venture creation process (Gartner, 1985). This process is a nonlinear, iterative, conceptual, feedback-driven and physical process (Bhave, 1994) which is composed of discovery and exploitation of sub-processes (Shane & Venkataraman, 2000). Specifically, the discovery process includes creativity, opportunity cognition and recognition, and the exploitation process incorporates resource acquisition and coordination (Shane & Venkataraman, 2000).

Previous research on entrepreneurship followed a similar path by predominantly focusing on entrepreneur characteristics and traits rather than providing an explanation for the process of entrepreneurship (Segal, Borgia & Schoenfeld, 2005). This can be demonstrated by the research of McClelland (1996) and Churchill and Lewis (1986), which focused exclusively on personality traits for an explanation of entrepreneurs. Research on entrepreneurial process did not start until the 1960s with the expectancy theory (Vroom, 1964) which mainly focused on individuals and sub-process of the entrepreneurial process model. In Vroom's model, the motivation itself is not constant but varies along a continuum and ebbs and flows in intensity throughout the process of attainment. Later, many process-based models have been proposed and several models become milestones when considering entrepreneurial processes from start-up ventures to subsequent ventures. Those process studies include Gartner's (1985) framework of the process model, Bhave's (1994) stage model, and Timmons (2004) equilibrium model. Due to the importance of these three process models in this study, they are

discussed in depth in the following Section.

Rather than focusing on the differences between non-entrepreneurs and entrepreneurs, Gartner's (1985) entrepreneurial process model emphasises the differences between entrepreneurs and organizations they create. In Gartner's (1985) theory, four major factors in entrepreneurship were considered, including the traits of individuals, the environments surrounding new ventures, the process created by entrepreneurs and new organisations. Entrepreneurs combine and coordinate these four dimensions in order to create the foundations of entrepreneurship processes. In considering entrepreneurial processes, Gartner further presented six process components including the location of business opportunities, the accumulation of resources, marketing of products and services, the production of products, the establishment of organisations, and the response to government and society. Entrepreneurship was first described and explained comprehensively in a multidimensional approach by Gartner, and this model became dominant due to the apparent simplicity, explanatory power (Moroz & Hindle, 2012).

However, when evaluating the issue of being generic and distinct of the entrepreneurial process, several issues might emerge. According to Moroz and Hindle (2012), this model might be problematic in three aspects. Firstly, it is unclear whether the intention to venture is inclusive of distinctness conveyed through Gartner's concept. Secondly, the assumption that entrepreneurship is profit-oriented in Gartner's theory is subject to debate (Austin, Howard, & Jane, 2006; Lazear, 2005). Thirdly, the issue of newness, although raised in Gartner's model, calls for more thorough examinations.

The second model selected for detailed scrutiny is from Bhawe (1994). Bhawe's entrepreneurial model is a stage model which evaluates determinants of entrepreneurship by focusing on different stages of the entrepreneurial process. In this model, the venture creation process is described as an iterative,

nonlinear, conceptual, feedback-driven physical process. This process model includes three important stages: opportunity stage, technology organisation creation stage, and exchange stage. In the opportunity stage, Bhate analysed both internal and external opportunity recognitions in order to formulate business concepts. Subsequently, in the technology and organisation creation stage, entrepreneurs are required to transform business concepts into physical venture creation, technology setup and development. The last stage is exchange stage, where there is a supply and demand boundary between product and customer and market, and though this boundary a venture can operate in the market.

Accordingly, Bhate's (1994) model integrates several entrepreneurial sub-processes and identifies new conceptual categories and sub-processes in venture creation. He not only provides new concepts in new venture creation, but also analyses the venture creation development process. This model is a useful road map and it provides specific strategic issues at different phases for entrepreneurs. However, this model emphasises more opportunity-driven factors for the early stage of the entrepreneurship process. Moreover, this model may not be suitable for those entrepreneurs who are forced to become self-employed and simply run low-tech small businesses, in other words, low-ability entrants.

Timmons (2004) equilibrium perspective model shows that the key factors in this process are the entrepreneur, the founding team, resources and the opportunities that are congregated to start a new venture. The objective is to achieve commercial successes or potential ventures. However, ambiguity and uncertainty exist in opportunity researching and the exogenous factors also affect entrepreneurs' utilising resources in the capital market context. The starting of this model is opportunity which influences the formulation of resources and teams. Opportunities, teams and resources are in equilibrium. However, external factors including uncertainties, ambiguities and risks affect entrepreneurial activities, and the equilibrium is disturbed. Entrepreneurs are required to adjust opportunities, resources and teams in order to achieve a new balance. Timmons also suggested that as

time goes by, the vagueness of opportunities, market uncertainties, risk of capital market, and external environmental reasons would affect the entrepreneurial process and thus make new venture creation full of uncertainties and risks. These results would again cause an imbalance among entrepreneurial opportunity, entrepreneurial team and resources. As a consequence, Timmons model is an ‘equilibrium - disequilibrium – equilibrium’ dynamic process.

Although Timmons’ (2004) model provides a new perspective of entrepreneurial process from the view of equilibrium, his model merely focuses on the role of the entrepreneurial team in adjusting the core activity to maintain the relative balance between resources and opportunities, and overlooks other determinants on entrepreneurial success including psychological traits (e.g., Brockhaus & Horwitz, 1986; Begly & Boyd, 1987; Donatus, 2010; McClelland, 1961), motivations (e.g. Bhola et al., 2006; Johnson & Darnell, 1976; Reynolds, 2001; Uhlaner & Thurik, 2007) on the establishment of new ventures. The model does however provide some insight in explaining antecedents that lead to this behaviour and identifying why entrepreneurs do it.

Other than the above process models selected for detailed scrutiny, previous entrepreneurial process models also include Webster’s (1976) stage model and process dynamic emphases on different entrepreneurial stages; Jones and Coviello’s (2005) stage model focuses on entrepreneurial events, feedback loop and firm performance; Sarason, Dean and Dillard’s (2006) process dynamic model of recursive process between entrepreneur and social system; Sarasvathy’s (2006) process model based on the views of effectuation; and a recent model proposed by Slotte-Kock and Coviello (2010) based on the perspective of network developments. However, the reviews of these models show that they are highly fragmented in their emphases and claims. Rather than containing a generality in a way that synthesises an understanding of entrepreneurial process, most extant models show only how entrepreneurs do some particular thing in a very particular way.

### **3.7 Research framework**

The review of literature found that a great number of issues that remains unknown in this field, even though there has been a semantic move towards the use of terms of necessity entrepreneurship and opportunity entrepreneurship (Verheul et al., 2010), most studies emphasise the distinctions of these two types of entrepreneurship (Minniti et al., 2005; Smallbone & Welter, 2004) as well as their impacts and outcomes (e.g. Harding, 2003; Jorn & Philipp, 2009; Minniti et al., 2005), little research, however, has been done on the relationship between necessity entrepreneurship and opportunity entrepreneurship, particularly, the transition process from necessity-based start-ups to subsequent opportunity-based entrepreneurship.

Necessity entrepreneurship is not a one-off entrepreneurial phenomenon, more entrepreneurs' motives may shift from a necessity driver to opportunity driver (Williams et al., 2006; Williams & Round, 2009; Williams & Williams, 2011) and a start-up venture based on necessity may then evolve into a more attractive alternative over time (Hinz & Jungbauer-Gans, 1999; Kautonen & Palmroos, 2010), suggesting that entrepreneurship is a dynamic process. However, the reasons behind this and what factors determine the transition from necessity-based start-up to subsequent opportunity entrepreneurship were still unknown, which forms the impetus of this research.

The review of entrepreneurship literature also synthesised what is identified and what can be derived from the general entrepreneurship literature to this specific entrepreneurial process. This transition process will be investigated from the pre-venture stage of necessity-based start-up and antecedents include motivations and background characteristics would be examined. Based on the wider entrepreneurship literature as well as those specific to subsequent entrepreneurship (e.g. Ronstadt, 2007; Timmons et al., 2004; Williams & Williams, 2011; Zacharakis et al., 2011), three key factors

are considered as the determinants of the transition process and will be evaluated. These include motivations, resources and opportunities.

For motivation, once the initial business success had been achieved and the push factors are no longer a concern, necessity entrepreneurs may be satisfied to stay in business, and some are motivated to involve in more entrepreneurial activities to achieve higher levels of success (Williams et al., 2006; Williams & Round, 2009; Williams & Williams, 2011). Entrepreneurs' motivations for engaging in the subsequent opportunity entrepreneurship appeared to be different from their motivations for starting the initial businesses. This is due to entrepreneurs earning satisfactory livelihoods through entrepreneurship even though their initial entrepreneurship was based on necessity reasons (Ronstadt, 2007). They were more likely to further their entrepreneurial careers. A similar argument is also made by Kautonen and Palmroos (2010) that even the start-up decision might have been necessity-based, if entrepreneurs are satisfied and willing to staying and further developing in business, their entrepreneurial activities cannot be deemed as a necessity.

Timmons model suggests that three key factors that entrepreneurs need to utilise in the entrepreneurial process, including resources, teams and opportunities. Teams are also recognised as important resources in the entrepreneurial process (Wu, 2007) since they bring in skills, technologies, capitals into entrepreneurship (Timmons, 2004). In the context of China, guanxi of team members also plays key role in the entrepreneurial success because help start a new business in China (e.g., Hoang & Antoncic, 2003; McNally, 2011; Yu, 2013). In this regard, teams are considered as resources in the entrepreneurial process. Therefore, two factors including resources and opportunities are considered in this entrepreneurial transition model.



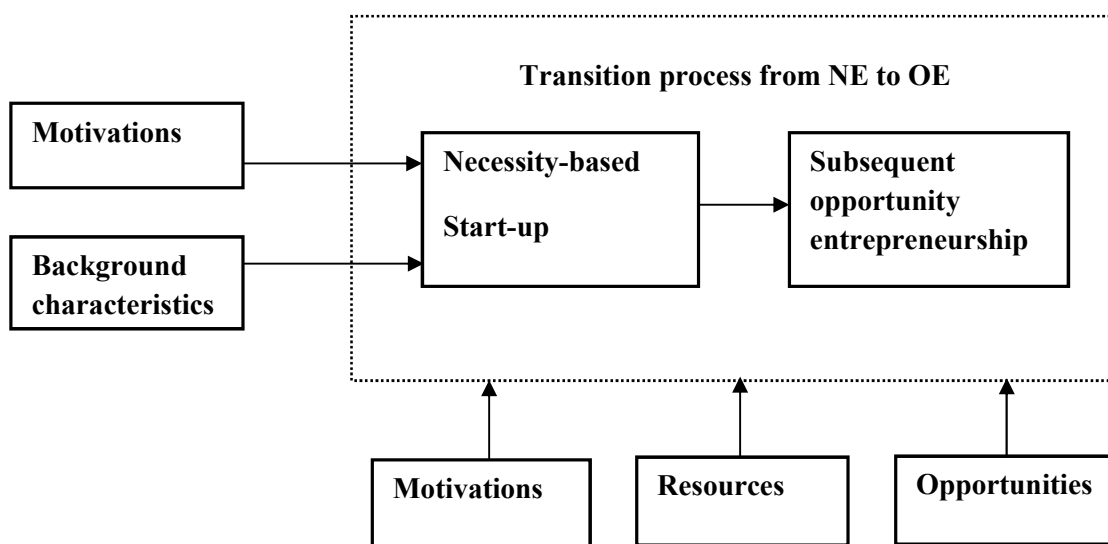
The resources available to the entrepreneurs are considered as the key factor of entrepreneurship because resources are vital to set up a new business (e.g. Leary & Devaughn, 2009; Timmons et al., 2004; Wu, 2007). Previous research has demonstrated that new ventures often fail to achieve high levels of business performance due to a lack of resources (Hitt et al., 2001). Effectual thinking also creates a focus on what resources are available in subsequent entrepreneurial activities (e.g., Morrish, 2008; Morrish, 2009; Sarasvathy, 2001). In the effectuation logic, goals are not pre-determined and outcomes maybe just one of multiple possibilities. Only by drawing on the means (such as resources, networks, etc.) can individuals shape or control an outcome (Morrish, 2008). Therefore, following the logic of effectuation theory, the utilisation of resources through the process of the transition from the necessary-based start-up to subsequent opportunity entrepreneurship is evaluated.

The opportunity recognition is considered as a prerequisite for entrepreneurship and is thus the core of the entrepreneurial development process (Zott & Amit, 2007; Zacharaki et al, 2011). Comprehending how opportunities determine the transition process is important. The corridor principle links entrepreneurial opportunity recognition with the follow-up entrepreneurship establishment. Through starting an earlier venture, new opportunities occur due to the gain of new knowledge about consumers, suppliers, technologies and emerging trends, as well as the capabilities and interests of the entrepreneurs themselves (Ronstadt, 2007). The identification of those new opportunities often leads to the creation of a follow-on start up (Ronstadt, 1988; Ronstadt, 2007). Therefore, following the thought of corridor principle, the discovery of lucrative opportunities for subsequent entrepreneurship and the role of opportunities on subsequent opportunity entrepreneurship is investigated.

In conclusion, entrepreneurial development is a dynamic process involving the change from pre-venture, necessity-based start-up, the transition from necessity-based start-up to subsequent opportunity entrepreneurship and opportunity entrepreneurship stages. This change is assumed to occur only when three factors, including motivations driving the entrepreneurs for the change,

resources available for the entrepreneurs to initiate the change, and opportunities allowing such transition to occur, are present. Figure 3.2 provides a demonstration for this conceptual framework. Based on this conceptual framework, interview questions are designed.

**Figure 3-2: the Conceptual Framework Explaining the Transition from Necessity-based start-up to Subsequent Opportunity Entrepreneurship**



### 3.8 Summary

This chapter discussed literature that is related to the research which is the transition from necessity-based start-ups to subsequent opportunity entrepreneurship. Given that the interest in this study is entrepreneurship, this chapter began by introducing basic theories of entrepreneurship, and then discussed different levels of entrepreneurship studies. Subsequently, three different entrepreneur typologies were discussed. Previous research has distinguished several entrepreneurship types based on different typologies. The interest of this research is in the dichotomy of necessity entrepreneurship and opportunity entrepreneurship, which was introduced and investigated by Reynold et al., (2001).

Although these two concepts have been studied by several entrepreneurial researchers, most research distinguished necessity entrepreneurship from opportunity entrepreneurship. Little research has been done on investigating the relationship between these two types of entrepreneurship.

It is now commonly acknowledged that a large number of entrepreneurs are not one-off business founders (Morrish 2009), the extant literature of habitual entrepreneurs explains well why people start another business and what factors push them to be successful in diverse businesses. However, when we try to focus on the perspective of motivation (necessity based or opportunity based) and study the subsequent entrepreneurial process, previous research of habitual entrepreneurship, portfolio entrepreneurship, and serial entrepreneurship cannot explain the phenomenon completely. Specifically, neither the definition of portfolio entrepreneurship nor serial entrepreneurship explains whether individuals' subsequent entrepreneurship is based on necessity-driven or opportunity-driven factors. Even if portfolio entrepreneurs have many businesses concurrently, these businesses might all be based on necessity-driven factors, opportunity-driven factors, or a factor admixture.

As discussed above, opportunity entrepreneurship has more advantages than necessity entrepreneurship in the perspectives of entrepreneurs themselves and economic development. Entrepreneurs are willing to establish business based on opportunity entrepreneurship and governments encourage opportunity entrepreneurship rather than necessity entrepreneurship. However, in the Chinese context, due to current economic conditions, necessity entrepreneurs comprise the largest portion of Chinese entrepreneurs and many of them are willing to further their entrepreneurial careers. Consequently it is important and required to investigate how necessity-based entrepreneurs create follow-on ventures, what is the motivation for their involvement in subsequent businesses, and most importantly, what major factors determine their successes in transitioning from necessity-based start-ups to following opportunity-based ventures. Since previous studies of habitual entrepreneurship

do not evaluate the process of the transition from necessity-based start-up to subsequent opportunity entrepreneurship, the rationale for this research is established.

## **Chapter 4: Methodology**

### **4.1 Introduction**

Studying the topic of entrepreneurship invites an in-depth investigation of the people, the processes, and the contexts where entrepreneurship occurs (Savage & Black, 1995). This chapter describes the research methodology adopted in this study and provides justification. The adoption of a methodology and the research methods essentially depends on the nature of the research topic and the questions being studied. Given that there are many different types of entrepreneurs (Hall, 1995; Reynolds, 2001) there is a greater need for more in-depth research focusing on different types of entrepreneurs (Van de Ven, 1992). Necessity entrepreneurs and opportunity entrepreneurs are significant segments of this group (Reynolds, 2001). While most research tries to recognise their differences there is little attention on their relationships and the transition process from necessity based start-up to subsequent opportunity entrepreneurship. The issues that were to be explored in this study are the key features of the development and engagement process and the mechanism through which necessity entrepreneurship has evolved to subsequent opportunity entrepreneurship.

The following sections of this chapter will firstly introduce the research purpose, and then discuss the research design specifically the application of qualitative case study. Then the selection of cases will be discussed in depth. As Yin (1994) suggested the interview method is the main source of case study information and will be utilised in this research. Apart from the interview method, recall and observation methods are also applied. After that, the demographics and description of cases are noted. The following section then discusses the data analysis including the data transcription and translation, coding and emergent themes. The last section is the summary of this chapter.

## 4.2 Research purpose

Necessity entrepreneurship and opportunity entrepreneurship are differentiated and most studies of entrepreneurship are based on the distinction between these two types of entrepreneurship. Necessity entrepreneurs tend to be low-ability business entrants while opportunity entrepreneurs are capable of utilising available resources (Deli, 2011). Therefore, there is often a shift from necessity- to opportunity-oriented entrepreneurship over time (Williams et al., 2006). However, little research has been done regarding the transition from the necessity-based start-up to the subsequent opportunity entrepreneurship. It is still not clear what major factors determine the transition process and how these factors have impacts on the transition process.

The current research consequently aims to better understand the concepts of necessity entrepreneurship and opportunity entrepreneurship and investigate how necessity entrepreneurs become involved in the subsequent opportunity entrepreneurship, identifies key factors that determine the transition process, and then explore how these key factors have impacts on the process. In order to comprehend this phenomenon, there are three emphasises.

The first emphasis is the pre-venture stage of necessity-based start-up. Comprehending the necessity entrepreneurship provides a deeper insight of ‘push force’ on entrepreneurship (Bhola et al., 2006). In this regard, motivations involved in necessity entrepreneurship as well as the factors that allow them to do so are investigated. The second focus of this study is to examine the process of running necessity-based businesses and demonstrating changes during the process. The changes may include the businesses themselves and entrepreneurs’ abilities, motivations, possession of resources, and other factors. Based on Kautonen and Palmroos’ (2010) findings, the initial necessity-based start-up has some impacts on subsequent entrepreneurship, therefore to comprehend the necessity-based business process contributes to the understanding of how necessity entrepreneurs become involved in

subsequent opportunity entrepreneurship. The third emphasis is to discover factors which determine the shift from the necessity-based start-up to subsequent opportunity entrepreneurship. Although extant research has revealed determinants of business success (e.g., Block & Wagner, 2007; Block & Sander, 2009; Verheul, 2010), determinants of venture success in the context of the transition process remain unknown. In this regard, the research aims and research questions are illustrated below.

### **Research purpose:**

This study aims to explore the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship that occurs within the process of entrepreneurship.

### **Research Questions:**

1. What are the motivations and contextual factors that ‘push’ individuals to start initial necessity-based businesses?
2. What are the motivations that ‘pull’ necessity entrepreneurs into the subsequent opportunity entrepreneurship?
3. What are the key factors that determine the shift from the necessity-based start-up to the subsequent opportunity-based entrepreneurship? How do these factors impact the shift?
4. What is the transition process from the necessity-based start-up to the subsequent opportunity-based entrepreneurship?

In order to offer better explanation about the phenomenon being investigated, the use of multiple case studies was deemed appropriate for this purpose. Details of research design are presented in the following sections.

## **4.3 Research method**

This section discusses the qualitative case study method as well as the trustworthiness of the selected case study method.

### **4.3.1 Qualitative case study research**

When comparing the definition of qualitative study and quantitative study, Creswell (1994: 1-2) described qualitative study as “an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting.” The qualitative method is used when the research context is poorly understood, the nature of the problem is not clear or the phenomenon under investigation is not quantifiable (Morse, 2003). Comparatively, quantitative study is described as “an inquiry into a social or human problem, based on testing theory composed of variables, measured with numbers, and analysed with statistical procedures, in order to determine whether the predictive generalisations of the theory hold true.” In contrast to quantitative statistical methods, a qualitative exploratory method enables a real life, open-ended, exploratory process to capture and understand the conceptual themes that might be significant to the research issue (Yin, 2003).

However, the research method does not depend on researchers’ preferences, but depends on the aims and purpose of the research and the conceptual framework within which the researcher operates (Silverman, 2005). In terms of entrepreneurship study, it is argued that many substantive issues in entrepreneurship are rarely addressed. There is a prevailing quantitative methodological bias in many areas of entrepreneurship research (McDonald, Gan & Anderson, 2004) and many important issues in entrepreneurship can only be investigated through qualitative methods and approaches (Gartner & Birley, 2002).



The goal of the research is to better understand two types of entrepreneurship necessity entrepreneurship and opportunity entrepreneurship, and to explore the transition process from the necessity-based start-up to the subsequent opportunity-based entrepreneurship. Therefore the application of the qualitative method is more appropriate. The selection of the qualitative method in this study also reflects Savage and Black's (1995) suggestion that the study of the topic of entrepreneurship invites an in-depth investigation of the people, the processes and the contexts where entrepreneurship occurs.

To achieve the goal of this study, a multiple cases study was utilised. The case study is one of many approaches of doing social science research. To answer the research questions in terms of "how" or "why" issues, the selection of case study is fitting. As Yin (2003) stated:

*In general, case studies are the preferred strategy when 'how' or 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context. (p. 1)*

As a research method, the case study approach is widely adopted in social science research. Eisenhardt (1989) argued that theory development and the understanding of phenomena can be achieved by using a case study approach. According to Yin (2003, p. 13), a case study is defined as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context especially when the boundaries between phenomenon and context are not clearly".

There are three types of case studies noted by Stake (2006). The first type is an intrinsic case study which is utilised to better understand a particular case. However, it is not representative of other phenomena and therefore is not suitable for theory building. Another type is an instrumental case study where cases are investigated deeply while the cases themselves play a less important role. The objective of instrumental case study is to offer insights into problems or to refine theories. The last

type is multiple instrumental cases. By applying multiple instrumental cases, multiple cases are chosen and multiple sources of evidence are utilised in case studies to increase generalisability (Miles & Huberman, 1994; Robson, 1993; Yin, 2009). In terms of this study, the multiple instrumental cases method is used. This method not only increase the richness and reliability of data but also reassures the research that the processes and phenomena in one well-described setting are not entirely idiosyncratic, and thus developing more sophisticated descriptions and more powerful explanations (Miles & Huberman, 1994).

In examining a variety of problems, environments and contexts, different levels of case study analysis are utilised by the researchers. Based on Pegram's statement (2000), case study research can be undertaken at three different levels. The first level is the descriptive case study level, which means the researcher merely describes a phenomenon. The second level is the exploratory case study level, which offers insights into problems or refines theory, and allows investigators to debate the value of further research and suggests several hypotheses or propositions. The last is the explanatory case study level. The researchers can explain diverse aspects and causal arguments highlighted by descriptive research. In this study, the exploratory case study level is utilised, because the phenomenon through which necessity entrepreneurship has evolved to subsequent opportunity entrepreneurship remains unknown, thus exploring the key features of the development and engagement process are required.

However, as a research approach, the case study research is also criticised in several respects. Firstly, case study research is frequently criticised for its limitation of their transferability of findings (Yin, 1994). Specifically, simply applying the results of a case study research in one situation to other similar situations might be biased. Secondly, it is argued that case studies lack standard research designs (Hamel, Dufour & Fortin, 1993). Particularly for the absence of definitive and routinised design, this not only constrains the effectiveness of case study research, but also decreases the

reliability of the research. Thirdly, case studies are also criticised for its operational disadvantages. This is particularly obvious when to include a large amount of data for analysis (Morrish, 2008).

Although there are some disadvantages of case study research, using case study research has several strengths that other research methods cannot capture (Feagin, Orum & Sjoberg, 1991). Firstly, case study research permits the grounding of observations and concepts about social activities and social structures in natural settings studied close at hand. Secondly, it provides information from a variety of sources over a period of time, thus permitting a more holistic examination of complicated social networks, social meaning, and social action. The last strength is that it encourages and facilitates theoretical innovation.

Because the research questions being examined have been relatively under-researched, it is argued that the application of the case study research method is appropriate. As the research is attempting to comprehend the phenomenon of the transition process from the necessity-based start-up to the subsequent opportunity-based entrepreneurship, this objective can be better achieved by an in-depth exploration of the process. The nature of this study and the exploratory character of the research, lends itself to case study research. This selection of the research method is also in response to Hartley's (1994) statement that the case study approach offers particular richness and detailed information of process in context and further provides an opportunity to analyse how processes and behaviours interact in a particular context.

#### **4.3.2 Trustworthiness of case studies**

The trustworthiness of qualitative study is often judged by a variety of criteria but mainly on validity and reliability. However these criteria are often applied in quantitative study and Lincoln and Guba

(1985) argued that applying these criteria to non-positivistic research is not proper although Yin (2003) suggests some case study tactics can be utilised to address these criteria.

Validity is the extent to which the actual test measurement performed yields the desired result. In other words, the believability of the results is a general definition of validity. Concerns regarding validity within case study research most often include construct, internal, and external validity (Morrish, 2008). According to Yin (2003), construct validity is concerned with building appropriate measures for the concepts being investigated. However, this method is generally problematic in case-study research. Critics of case study research often argued that in qualitative study, this is not a suitable criterion because the investigator is mainly the instrument and in the case of the interviewer, is a necessary and very important actor in the construction of the informants' meanings. To tackle this problem and increase the construct validity in case study, this study applies Yin's (2003) three tactics: using multiple sources of evidence, establishing a chain of evidence during the data collection stage, and having key informants review the draft case study report.

External validity is described by Sekaran (1992) as the extent to which the research results can be generalised to apply to other people, events or settings. Put simply, it means how well the research's findings can be generalised. Generalisability refers to how well the research results of the study can be applied to other contexts. In order to achieve generalisability, it seems that random sample selection and ensuring all participants are equally included in the sample were the only keys. Simply studying a single case and generating results is problematic since the sample is not readily generalisable. However, according to Yin (2009), when dealing with case studies, this analogy to samples is inappropriate because survey studies rely on statistical generalisation while case studies rely on analytical generalisation. This analytical generalisation helps to generalise a particular result to a broader theory. One approach usually utilised to increase generalisability is the use of multiple case studies, which is also applied in this study.

Internal validity refers to the extent of our confidence on causal effects (Senkaran, 1992), specifically, internal validity is designed to confront the degree of confidence in the research findings. In order to increase internal validity, data triangulation (Yin, 2009) was used in this study. Details of these triangulation methods will be discussed later in this chapter.

Reliability involves result consistency. It can be described as how dependable and consistent the study results could be if the research were conducted at different times. According to Brown (1998), in order to increase reliability, method transparency and full documentation of evidence are crucial, because the objective of reliability is to minimise biases and errors in a study. Without such documentation, it is difficult for other researchers to conduct a replication. A similar idea was also suggested by Yin (1984) who maintained that ensuring a study is repeatable is the goal of reliability. To increase reliability, several tactics are employed in this study, including concise explanation of procedures, thorough description and analysis, maintaining memoranda, and the development of a case study database during the data collection stage.

#### **4.4 Cases selection**

As China transited from a planned economy to a socialist market economy with Chinese characteristics (Siu & Klandt, 2000), many individuals began to build their own businesses from nothing in order to survive. In this early stage of the transition process, a large number of individuals engaged in necessity-driven entrepreneurial activities. With rapid economic development, entrepreneurship has now become a fundamental part of China's social, political, and economic transformation. There are more than 100 million people who conduct private business in China (Guthrie, 2009), many of whom started businesses from almost nothing have now become very successful entrepreneurs.

To investigate this phenomenon, it is important to seek out experienced entrepreneurs who started initial businesses by engaging in necessity entrepreneurship and then seized lucrative business opportunities and set up subsequent businesses. For this purpose, random sampling is of little use. Instead, purposive sampling is utilised. Purposive sampling is the sampling of a particular context providing implicit criteria set out by the researcher (Miles & Huberman, 1994) to provide the most detailed and richest data on the subject (Patton, 1990). Applying purposive sampling in this case study is suitable since it is necessary to acquire in-depth information from specific objects. In this study, these specific objects are individuals who can provide desired information or match criteria set by the researcher (Sekaran, 1992).

For the purpose of this research, the case participants have met the same criteria. They are entrepreneurs who have experienced the transition process from the necessity start-up to the subsequent opportunity entrepreneurship. Particularly they experienced two entrepreneurial phases. The first stage was survival, when they were forced to start their entrepreneurial careers by employing themselves in small businesses. The second phase was for growth. They were encouraged to develop their entrepreneurial careers further by taking business opportunities to engage in new industries or to expand their initial pursuits.

Following the method of Reynold et al., (2002), two questions were asked when selecting suitable cases in this study. The first question was: ‘When you started your first business, was it because you did not have other options to work, and you were forced to be self-employed?’ The second question was: ‘Did you set up a subsequent business because you were driven by opportunities as opposed to finding no other option for work?’ If the answers to these two questions were both yes, they were deemed appropriate participants.

Cases were selected from Fujian province, China. This is because these areas are deemed as the centre of new venture growth in China. According to NBSC (2013), the percentage of private business contributes 67.2 percent of total GDP in Fujian Province, which ranked the top among all provinces in China. The researcher contacted three local chambers of commerce for the list of local private businesses. However, only one local chamber of commerce (which requested anonymity) agreed to do so. This list contained 187 private enterprises from different industries in different regions of Fujian province. The sector distribution of these private enterprises is provided in table 4-1.

**Table 4-1: The sector distribution of listed firms**

Industries	Number of firms	Percentage
Manufactory	37	19.7%
Catering	31	16.6%
Medical and pharmaceutical	25	13.4%
Construction	23	12.2%
Transport	21	11.2%
Retailing and wholesaling	15	8.0%
Education	12	6.4%
International trading	8	4.3%
Others	15	8.0%

By grouping these enterprises based on industries, the researcher then searched online for these enterprises' official websites for further information. The first step was to read the introduction and background of the enterprise and its founder. For those websites that revealed their business founders started business from zero or possibly from necessity-based start-up, the researcher then marked those entrepreneurs as potential interviewees. Thereafter, the contact information was recorded. The researcher then contacted them and asked questions to find out whether they met the set criteria. However, among those 187 firms, 45 enterprises did not have official website. Their contact details were then gathered from other sources. One source was the on phone number inquiry (Best Tone)

which provides firms' contact numbers by dialling Best Tone service numbers. The other sources were from job-seeking websites, because most firms recruit through professional platforms, such as Ganji.com and Zhaopin.com. By gathering these contact details, the researcher then contacted them and asked questions to find out whether those entrepreneurs could be classified as potential cases. Overall, a total 21 cases were found to meet these criteria, but only 6 entrepreneurs agreed to participate in this study. Therefore, these six cases were selected. However, the research for the transition process from necessity-based start-up to subsequent opportunity entrepreneurship requires participants to recall what had happened in the past, which means the study involved collecting data about past events. The main disadvantage of recollection is that memory might not be very reliable (Haavelmo, 1944), which might cause recall bias.

In terms of the number of cases, there are no set criteria to choose the number of cases and it is mainly up to the judgment of the researcher (Yin, 1994). Six cases were purposefully selected as a realistic number to conduct this study and were sufficient to identify patterns leading to the research issues. The first basis was that every effort was made to select respondents from different industrial sectors in that the diversity provided more compelling evidence. The six industries examined including both manufacturing and services industries. Secondly, these six cases were carefully chosen and were consistent with the replication logic which was critical in multiple case studies (Yin, 2003). This means that these six cases could generate similar results from the study, which led to answering the research issues and securing the validity and reliability of this research. Thirdly, these six cases included totally 23 interviews and observation methods, which increased data accuracy and reliability of the results. Overall, six cases for this study were significant to identify issues and comprehend the research focus.

Among all cases, one case stood out from others, coded as Case 1 since the researcher played a role as a key informant rather than solely as an interviewer. This was because when the researcher searched



information from the list provided by the local chamber of commerce, the researcher found that one enterprise's owner was known to the researcher for a long time, his case met the criteria set by the research and he was happy to participate in this study. There were several advantages in selecting this case for the study. The first advantage was more information could be gathered in this case. Specifically, the entrepreneur could trust the researcher and he felt more comfortable to talk. Consequently, during the interview, more information was provided. Additionally, the entrepreneur was more willing to introduce his employees and friends for the interviews, and more sources of information were collected and could be triangulated. Secondly, the researcher as a key informant in this case increased data richness. Particularly, the researcher had known this entrepreneur since he set up his initial business and had witnessed and observed his entrepreneurial development. These observations by the researcher were applied in this case to triangulate the data to further secure data richness and accuracy.

## **4.5 Data collection**

Once the researchers have selected the type of case study based on the needs of the research, data can be collected. Data collection for case studies is conducted in a variety of ways and the common methods include interviews, observation, studying written documents or any combination of those methods. Yin (1981) states, "The case study does not imply the use of a particular type of evidence. Case studies can be done by using either qualitative or quantitative evidence and the evidence may come from fieldwork, archival records, verbal reports, observations, or any combination" (p. 58).

Data collection procedures are a significant stage of the case study because collection procedures are not routinised and the success falls squarely on the abilities of the data collector (Yin, 2009). Therefore, the researcher must evaluate the advantages and disadvantages of methods used in order to determine what data sources are the most appropriate for the study. The data collection method for these cases is mainly in-depth interviews. Yin (2009) stated that the interview method is one of the

most important sources of case study information. This method starts with the assumption that individual's perceptions are meaningful, knowable (Patton, 1990) to understand a topic from the subject's viewpoint and to disclose the meaning of individual's experience, to uncover their world (Kvale, 1996).

The utilisation of interview method possesses many benefits in case study (Yin, 2009). Based on Veal's (2005) statements, the necessity and advantage of utilising qualitative interviews are twofold: firstly, this is a topic of exploratory nature where hardly any extant research has been done regarding the issues of the transition process. As discussed in the literature review, most studies investigated distinctions between necessity entrepreneurship and opportunity entrepreneurship, and virtually no study has been conducted examining the transition process from necessity-based start-up to the subsequent opportunity-based venturing. Secondly, the information obtained varied considerably based on what entrepreneurs encounter during the transition process. It is more likely that each interview was a story and entrepreneurs' perspectives and experience play significant roles. Therefore, simply to distribute questionnaires or structure surveys is inappropriate. Consequently, employing interviews to understand entrepreneurs' experiences and perspectives during the transition process is the most suitable method to conduct the case study.

In this regard, this case study research mainly utilised the interview method. In order to receive sufficient information for the study, the researcher also followed Yin's (2009) suggestion to be a 'good listener'. According to Yin (2009, p. 70), "A good listener hears the exact word used by the interviewee, captures the mood and affective components, and understands to context from which the interviewee perceives the word."

There was a deliberate effort to collect case study information from various sources. In addition to interviewing entrepreneurs, entrepreneurs' business partners, employees, relatives and friends were

also interviewed. The data were also collected from the researcher's observations and recollections. This was in response to Yin's (2003) statement that that no single source has a complete advantage over the others, a good case study therefore seeks to use more sources.

Using various sources or methods to collect data is also known as data triangulation which means the data is collected from different times, spaces, or people. This 'triangulation of sources' included in-depth interviews, documents collected from network organisations, newspaper and magazine articles, and field observation (Patton, 1990). To apply a data triangulation approach was important in this research since it is a technique that helps to enhance the credibility of research by enhancing the trustworthiness of the data (Lincoln & Guba, 1985). As described by Herr and Anderson (2005, p. 56) "The notion of triangulation, or the inclusion of multiple perspectives, guards against viewing events in a simplistic or self-serving way". Accordingly, in this study, data triangulation includes interviews with entrepreneurs' employees, friends or relatives who had witnessed the transition process, and the researcher's observations and recollections. Details of data collection methods are shown in the following section.

#### **4.5.1 Semi-structured interviews**

Specifically, semi-structured interviews were used since they are deemed to be a good approach of gaining individuals' perceptions (Stainback & Stainback, 1988). Semi-structured interviewing utilises open-ended questions and open ended answers. Interview respondents are allowed to talk more on their own cases rather than being interviewed according to a set of formalised and rigid questions. The interviews will appear to be a guide to conversations rather than structured queries (Yin, 1994). In addition, well-informed participants can provide significant insights into a situation. They can also provide shortcuts to the prior history of the situation, which helps researchers to access more relevant sources of evidence (Yin, 1994).

#### **4.5.1.1 Interviews with entrepreneurs**

The researcher made contact with selected entrepreneurs in advance. With their permission, the researcher went and met them in person. When meeting with entrepreneurs, the researcher greeted and chatted with them, and then the researcher briefly introduced his doctoral thesis and this study. Participants were also asked to read the information sheet and consent form. The researcher then explained the information sheet and the consent form that his/her participation in the research was voluntary and they could cease interviews at any time during the study. Further, they were informed that their names or business names would not be used in the thesis. The researcher then answered their questions in terms of the information sheet and the consent form, with agreement, the participants then signed the consent form.

By applying semi-structured interviews, selected entrepreneurs were encouraged to describe ‘stories’ about how they grew from nothing, and how they were encouraged to set up subsequent businesses based on opportunities. Follow-up questions were also asked based on their answers. Most interviews required approximately two hours and were audio-taped and later transcribed. The information sheet and consent form are shown in Appendix 1 and Appendix 2, respectively. The interview questions are displayed in Appendix 3.

#### **4.5.1.2 Interviews with entrepreneurs’ business partners, employees, friends or relatives**

In order to triangulate the data sources to supplement important information, other relevant people such as entrepreneurs’ business partners, employees, friends or relatives were also interviewed. Entrepreneurs in cases were asked for the permission to interview other relevant people. All entrepreneurs were amenable and introduced parties for interviews. Interviewees included managers, staff, business partners, friends, and relatives. Most interviews were conducted in their offices and some were conducted in tea houses or restaurants. As with interviews with entrepreneurs, the researcher greeted and chatted with them, and then the researcher briefly introduced his doctoral

thesis and this study. Interviewees were also asked to read the information sheet and consent form. The researcher then explained the information sheet and the consent form that his/her participation in the research was voluntary and that they could cease interviews at any time during the study. Further, interviewees were informed that their names would not be used in the thesis. Then the researcher answered their questions relative to these two forms. The participants then signed the consent form with agreement.

Based on the information gathered from the interviews with entrepreneurs, the participants were asked questions related to the business owners' entrepreneurial careers, especially during the transition processes, and what their understandings of the entrepreneurs' actions were. The interviews were semi-structured, follow-up questions were also asked based on their answers. Most interviews took between one hour and one-hour-and-a-half. They were either audio-taped or recorded by taking notes.

#### **4.5.2 Recollections and observations**

As discussed in Section 4.4, Case 1 stood out from others since the researcher played a role as a key informant for data collection, and because the researcher had witnessed the entrepreneur's career development for two decades. In this respect, the researcher's knowledge of the entrepreneur's career and the case was invaluable to this study.

The general definition of a key informant is that the key informant is an expert source of information (Marshall, 1996). The key informants, as a result of their personal skills, or position within a society, are able to provide more information and a deeper insight into what is going on around them (Marshall, 1996). Key informants are also called "natural observers". According to Williams (1967),

the ideal key informant should possess five characteristics: role in community, knowledge, willingness, communicability, and impartiality.

The recollection method was used in Case 1. Specifically, the research recalled what the entrepreneur had done in his entrepreneurial career. Recollection data was compared with interview data in Case 1. Utilising this method increases the value and validity of Case 1. The researcher's knowledge of the entrepreneur's career in this case is mainly from three sources: the researcher's observations in the past, the information acquired by chats between the researcher and the entrepreneur in the past, the information acquired from chats between the researcher and the entrepreneur's employees, relatives and friends in the past. However, this method might raise some doubts since critics of case study research often point to the 'subjective' judgements made by the investigator during data collection and therefore decrease validity (Crotty, 2007). In view of this concern, the researcher tried to recall stories and what had happened to the entrepreneurial career in the past rather than explaining or judging it during the data collection stage. The skills and presence of the researcher had a significant impact on the data value collected using this method. The whole process followed Arbnor and Bjerke's (1997) suggestion that the researcher acts as an interpreter of behaviours rather than a subjective perspective.

Observation method was also utilised in Case 1. The researcher observed what the entrepreneur had been doing during the entrepreneurial career. The observation data was compared with recollection and interview data to increase the validity of the data in Case 1. The observations from the researcher had been observed by the researcher accidentally for a period of time in the past. In this respect, these observations were passive observations. The concept of passive observation was from Haavelmo (1944, p. 7) who state that:

*The economist is usually a rather passive observer with respect to important economic phenomena; he usually does not control the actual collection of economic statistics. He is not in a position to enforce the prescriptions of his own designs of ideal experiments.”*

*“....Their origin is Man's craving for "explanations" of "curious happenings," the observations of such happenings being more or less accidental or, at any rate, of a very passive character. (p. 12)*

As can be seen from his concepts, a passive observation occurs when the observer does not intend to observe a phenomenon, but accidentally finds a specific phenomenon and then acquires some knowledge from it. However, the disadvantage of the recall of the passive observation is that the memory might not be very reliable (Haavelmo, 1944), which may cause bias. To tackle this issue, the researcher recorded the recall information in the form of written notes and then compared with the data collected from Case 1's interviews. If unmatched data was found, the researcher contacted participants in Case 1 for verification and confirmation.

## **4.6 Data profile**

This section provides data profile including demographics of the cases and description of each case. Details are presented below.

### **4.6.1 Demographics of the cases**

Six cases were selected based on a single criterion. As can be seen in Table 4-2, participants in each case included one entrepreneur and the entrepreneur's employees, friends or relatives. Totally, there were 23 participants involved in this study. Entrepreneurs' businesses were in a wide range including pharmacy, clinic, hospital, restaurants, clothing retail, driving school, brick factory, and real estate development. Numbers of entrepreneurs' employees ranged from 30 to 300, with an average of 113 employees.

**Table 4-2: Description of cases and participants**

Cases	Business	No. of employees	No. of participants	Year of setting up the second business	Participants	Gender	Age	Education	Years in business	position
Case 1	Pharmacy & Clinic	50+	6	1989	J1	Male	54	TSS*	32	Owner
					W1	Female	52	Diploma	30	Manager
					L1	Male	69	TSS*	5	Pharmacist (retired)
					M1	Female	32	Diploma	7	Assistant manager
					D1	Male	45	TSS*	23	Supplier
					X1	Male	40	College	23	Store manager
Case 2	Restaurants	300+	4	1996	L2	Male	43	MS*	21	Owner
					W2	Female	39	HS*	20	General Manager
					G2	Male	48	MS*	22	Chef
					K2	Female	38	Diploma	15	Financial manager
Case 3	Clothing retailer (E-commerce)	30+	4	2008	D3	Male	30	Degree	7	Owner
					W3	Male	30	Degree	7	Manager
					Q3	Female	29	TSS*	6	Supervisor
					H3	Male	31	Degree	N/A	A friend of D3
Case 4	Driving schools & Brick factory	50+	3	2001	L4	Male	53	HS*	30	Owner
					T4	Female	37	Diploma	12	Accountant
					B4	Male	51	HS*	N/A	A friend of L4
Case 5	Real estate developer	130+	3	1998	X5	Male	42	MS*	25	Owner
					L5	Female	38	College	17	Financial manager
					W5	Male	42	HS*	13	Personal assistant of L5
Case 6	Hospital & Pharmacy	120+	3	1996	Z6	Male	43	College	15	Owner
					C6	Male	39	College	15	Manager Z6's brother
					N6	Male	41	TSS*	13	Store Manager

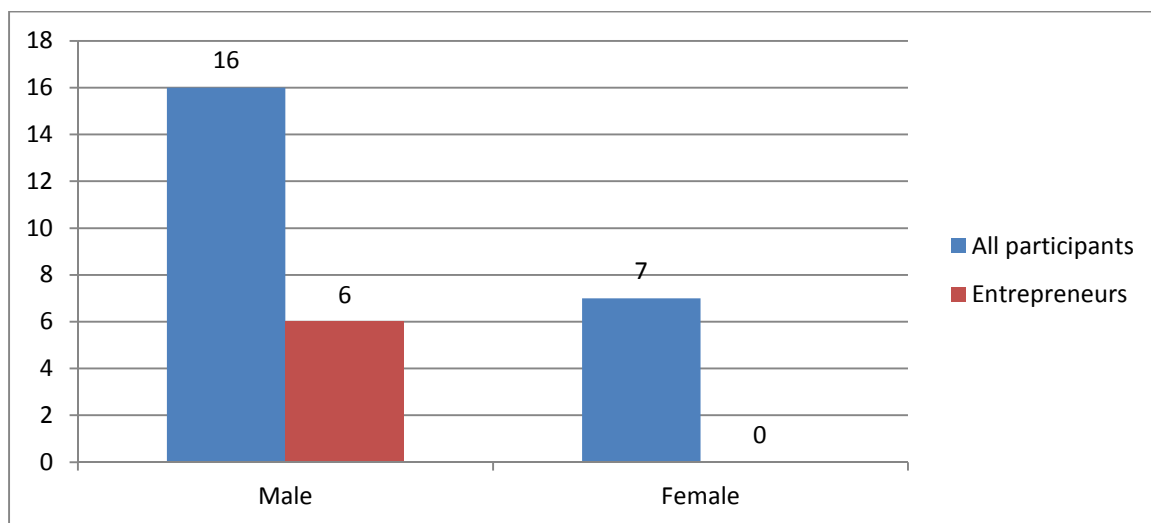
\*TSS= Technical Secondary School; MS= Middle School; HS= High School



## Gender

Within the study group, 16 participants (69.57 percent) were male and 7 participants (30.43 percent) were female. All six entrepreneur participants are male. Seven female participants were all entrepreneurs' employees. The description of gender of participants is demonstrated in Figure 4-1.

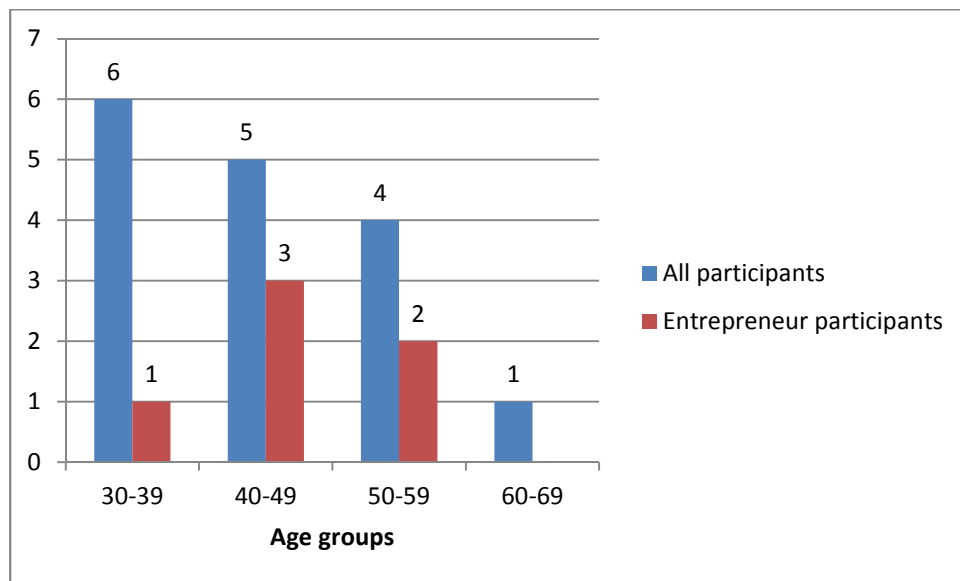
**Figure 4-1: The gender of participants**



## Age

The 23 participants' ages ranged from 30 to 69 years old. Within the study group of 23 participants, 10 participants (43.48 percent) ranged between 30 and 39 years old, eight participants (34.78 percent) ranged between 40 and 49 years of age, four participants (17.39 percent) ranged from 50 to 59 years of age and only 1 participant (4.35 percent) ranged from 60 to 69 years old. The six entrepreneurs' ages ranged from 30 to 54. The mean and the median age of the entrepreneurs were 44 and 43 years old, respectively. The distribution of participants' ages is contained in Figure 4-2.

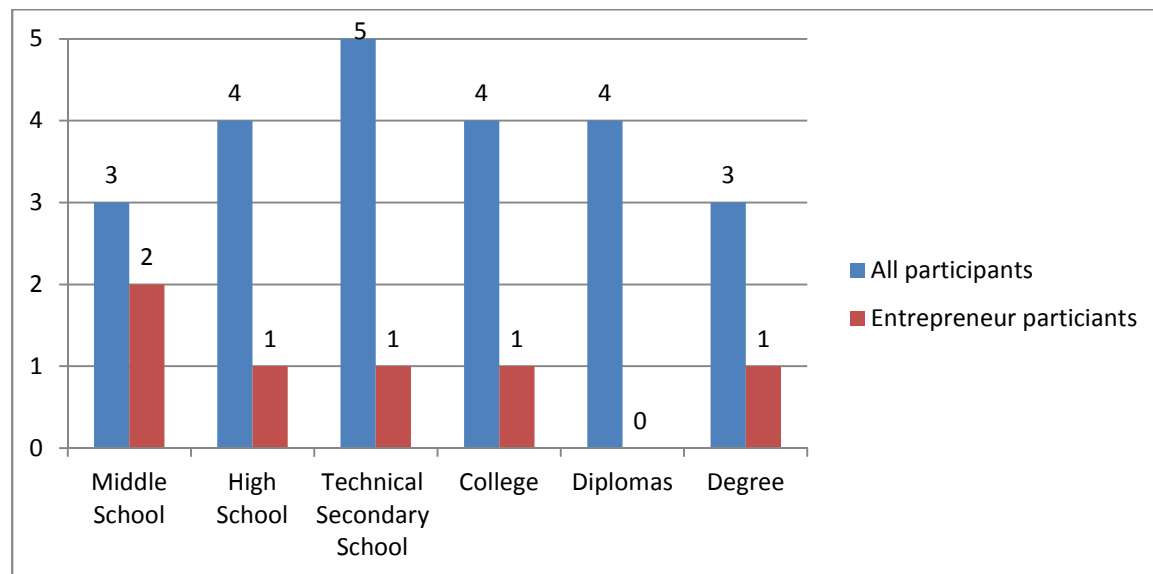
**Figure 4-2: The age of participants**



### **Education levels**

The study group showed that participants' education levels ranged from middle school to bachelor's degree levels. Of the 23 participants, three (13.04 percent) participants held bachelor's degrees and they were all doing e-commerce business. Data also indicated that three (13.04 percent) participants only received middle school education including two business owners and a chef. Four (17.39 percent) participants graduated from high school, five (21.74 percent) participants possessed technical secondary school certificates, four (17.39 percent) participants had college certificates and four (17.39 percent) participants received diplomas. Overall, the participants did not possess high education levels. The distribution of participants' education levels is displayed in Figure 4-3.

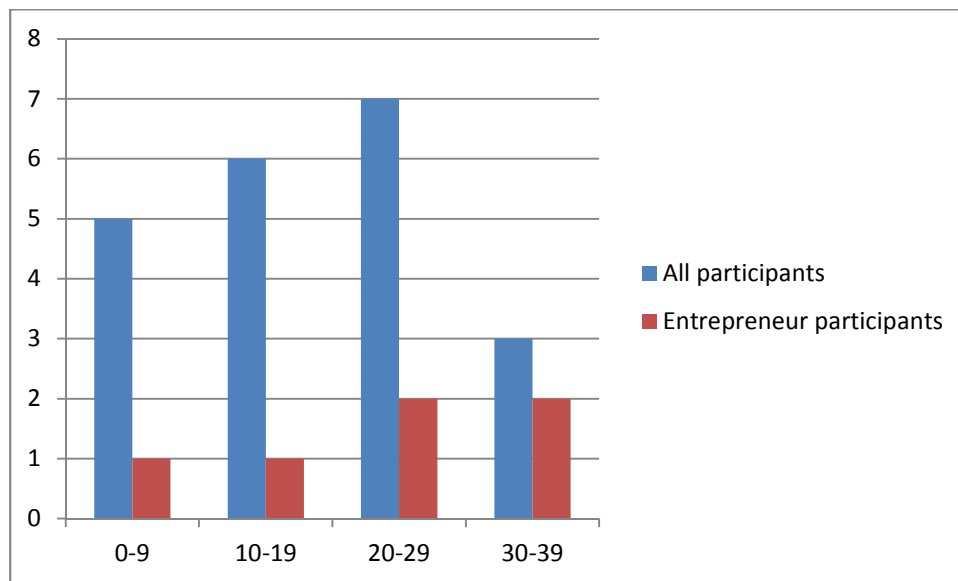
**Figure 4-3: Participants' educational levels**



### **Years in business**

Within the study group, participants' period of doing business ranged from five years to 32 years. Of the 23 participants in this study, two participants were entrepreneurs' friends, who were not involved in the entrepreneurs' businesses. Therefore, their years of doing business were insignificant in this study and were not tabulated. The 21 individuals, five participants' years in business ranged from 0 to 9. The years 10 to 19 and 20 to 29 had seven and six participants respectively, which totally comprised about 52 percent of all participants. There were three participants in the range between 30 and 39. For the entrepreneur participants group, two - thirds of them had more than twenty years' business experience and one - third possessed less than twenty years' business experience. The distribution of participants' years in business is shown in Figure 4-4.

**Figure 4-4: Participants' years in business**



### **Position in business**

Of the six cases in this study, there were totally six busienss owners. All employees (eight) who had experieined the transition from necessity start-up business to subsequent opportunity entrepreneurship with their busienss owners were currently playing important roles in their businesses. Except for one retired, the other seven employees were managers or owners' personal assistants.

## **4.6.2 Description of case 1**

### **Establishment of the initial business**

J1 was a medical student who graduated from technical secondary school in 1986. At that time all tertiary education graduates were assigned jobs by the schools. J1's school was not in his hometown, so when he graduated, the school assigned him to work about 300 km from his home town. J1 could not work that far away, because his parents were in poor health and his sisters were still too young to

take care of the family. The burden was totally on J1's shoulders. For these reasons, J1 abandoned that offer.

Thereafter, J1 continued looking for a position in a local hospital, but after one and a half year's searching, he unexpectedly failed to secure a position. Most local hospital positions were offered to new local school graduates, or offered to those who had very good *guanxi* (relationships or power). J1 was from a modest family, so there was not even a chance for him to work in a local hospital. He was depressed for a few months, but in order to make a living, he needed to find a solution because his family could not support him financially.

J1 gave up looking for a job. Instead, he planned to operate some small businesses. He opened a small grocery adjacent to the local market. His idea was supported by his relatives and they decided to lend J1 money to set up the business. J1 received a few hundred yuan from his relatives, and rented a small space, about 20 square meters. J1 started this business alone because he thought one person in the store was enough.

### **Operation of the initial business**

J1's store sold daily necessities such as cooking spices, tissue, detergent, and cooking oil. Customarily, locals rose very early to shop for fresh vegetables and meat in the local market. Since J1 store was beside the market, he needed to open very early, but the early morning flow of shoppers benefited J1's store.

J1's business was increasingly prosperous from the time he set up the grocery. On one hand, there was a large number of market shoppers, and on the other hand, J1 was a very kind, honest, and likable man. After the busy morning, the market was relatively quieter. J1's grocery was not particularly busy in

the afternoon either, but his new and old friends gathered in the store and drank afternoon tea. He was very hospitable and knowledgeable, and his friends all liked him. His friends frequently introduced new friends so that afternoon tea made him familiar with many people. His grocery was busier between 5 and 6 p.m., because people were going home from work, needed to go to market, and bought some groceries. After the late afternoon peak, J1 closed his store, and the next day, opened around 7 o'clock. Other than for Lunar New Year and his honeymoon, he never closed his shop in the daytime.

J1 ran this business for two-and-a-half years. He made around nine thousand yuan totally, which was about four times what a doctor working in local late-1980s hospitals earned. His working hours were too intensive, so that when J1's finances improved, he did not want to work from morning to afternoon every day. Then he decided to hire another person.

### **Ideas for a subsequent business**

J1's business was good and he earned more than he would if he had been employed. At that time, he simply worked as diligently as before and never dreamt that he would have an opportunity in other business until one day he received news which totally changed his life.

One afternoon, as usual, some people gathered in his store and had afternoon tea. Among them was one who worked in a local hospital and he told J1 that private individuals were then allowed to open pharmacies. Prior to that, all hospitals and pharmacies were State-owned. Individuals were not allowed to engage in these businesses. Even though it was almost a decade after economic reforms (1979), many businesses were privatised, but medical industries were still held for another decade. The modification of this regulation raised J1's hopes to be involved in this business. After hearing this news, J1 considered this idea for a while.

There were several reasons that convinced J1 to pursue it. Firstly, J1 graduated from medical school, he had a certificate, and he was certified to open a pharmacy. Second he wished to return to this field, because it interested him. Thirdly, J1 understood that even though his current business was adequate, growth of that business was very limited. He could not envision the future of this business. Additionally, J1 did not enjoy that business and he did it only to make a living.

However, J1 also had some concerns. One was the money issue. His current income was respectable, but to invest in a pharmacy, he needed to sell his current business for cash. If the new business was not profitable, he would either lose both the current and new businesses. Then his family would face financial problems. Despite these concerns, J1 eventually decided to try it.

### **Establishment of the subsequent business**

As soon as J1 made the decision to set up a private pharmacy, he went to the local health bureau which oversaw medical industries. He soon encountered some issues. Since allowing private individuals to apply to operated pharmacies was new, there were no clear rules and criteria, and application approvals were based more on officials' subjective judgements. J1's application was rejected without explanation. He realised in order to gain approval he would need to use connections. J1 discovered that he had a schoolmate working in the health bureau, so he asked him for help, and finally garnered approval.

However, in addition to the licence from the health bureau, opening a pharmacy also required a licence from the industry and commercial bureau and a tax registration certificate from the tax bureau. J1's application to the industry and commercial bureau was on the waiting list, and the normal process took two months. However, J1 had a friend who was an official in that department. J1 had a favourable relationship with him because this man frequently joined their afternoon tea. When the

man understood J1's problem, he assisted J1 in processing the application so that the licence was issued in a week.

When J1 successfully had these licences and certificates approved, he soon had another issue. J1's specialisation was western medicine, while a pharmacy also required providing Chinese traditional medicine. J1 needed to find someone who could do this job. Fortunately, he knew L1 had been practising Chinese traditional medicine for years, and he agreed to work for J1.

### **Operation of the subsequent business**

After three months' preparation, J1's pharmacy opened in 1988. This pharmacy was the first private pharmacy in that district. It was located beside the local market as well. The store was substantial with two main sections: traditional medicine and western medicine. J1 and L1 were in charge of these two sections separately, W1 was in charge of financial affairs. X1 provided general administrative assistance.

Initially, there were very few customers who visited J1's pharmacy. The main reason was their scepticism of private pharmacies. At that time, people were unwilling to accept private pharmacies, because they did not trust them. They felt more secure buying medicine from State-owned pharmacies. This was a big headache for J1, but he was powerless to change thinking. He simply persevered. However, J1's friends trusted him and became his first customers. After a few months' efforts, this situation changed slightly and people started to visit his store.

There was only one formal supplier, also state-owned. Both State-owned and private pharmacies had to purchase from there. Each time J1 needed to stand and wait in line for hours. Once, when it was J1's turn to order they refused his order because of lunch time and asked him to return after that. More



very inconvenient hours of waiting followed in the afternoon. He decided to establish *guanxi* with the State-owned supplier. Thereafter, it was easier to purchase medicine. In addition to purchasing supplies from the state-owned supplier, J1 also sought informal purchasing channels, not patronised by State-owned pharmacies. Informal purchasing channels reduced the cost of supplies and provided a greater variety of products compared with the State-owned pharmaceutical supplier. Lower prices and a great variety of remedies attracted increasingly larger numbers of customers.

J1's team members were very friendly and patient, which was deeply welcomed by customers. In contrast, state-owned pharmacies most often waited on customers impatiently or with bad attitudes. People working in State-owned pharmacies enjoyed no customer service incentives. But in J1's store, team members' incomes were based on performance. They worked diligently and ingratiated customers.

J1's business prospered and became very profitable in the second year. At first, only four people worked in the store, but that increased to ten. J1 extended operating hours from 7 a.m. to 10 p.m. whereas they used to be 7a.m. to 5 p.m. with two shifts.

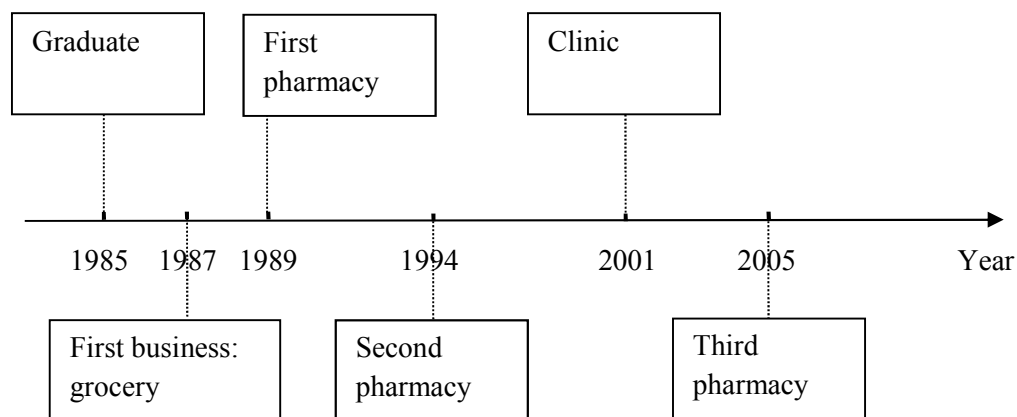
In 1994, the local market moved to a new place. J1 bought a store, and he then opened another pharmacy. When the new market opened, his second store benefited from the large population footfall. X1 became the manager of this new store. When X1 first worked for J1, he did not have any skills, but he was smart and diligent, when he worked in J1's first pharmacy, he studied part time, and he earned a certificate as a senior pharmacist.

In 2000, J1 opened a clinic in a community inside a local development zone. In 2000, there were hundreds of industries moving into this zone with about thirty-thousand employees. Most of the workers lived in the community. However, there was no clinic or hospital. There were two doctors

and four nurses working in the clinic. It was very busy, on average, 80 patients came to see doctors daily.

After three years, J1 opened another pharmacy in front of the clinic, so that it was more convenient for patients to purchase medications after seeing a doctor. It provided services to people, was a good opportunity, and a good business. J1 currently has three pharmacies and a clinic. There are about 50 employees. In 2009, J1's first pharmacy affiliated with the national medical insurance programme (also known as Medicare), which meant people could purchase some medications in the pharmacy using their Medicare cards, with costs covered by governments. Since that, that pharmacy's sales have doubled. Overall, J1's entrepreneurial career development is shown in Figure 4-5.

**Figure 4-5: J1's entrepreneurial process**



### **4.6.3 Description of case 2**

#### **Establishment of the initial business**

L2 dropped out of middle school when he was a teenager and then sometimes farmed with his parents. As farmers, his parents were poor. When L2 became older, he realised that his parents could not always support him financially. He was not a boy anymore, and he had to become independent. Since L2 did not have much education, without skills, he had trouble finding suitable jobs. Then he decided to be self-employed and operate a small business. He borrowed money from relatives and opened a snack shop selling duck noodle soup in 1992.

#### **Operation of the initial business**

L2's snack shop was small and simple with only two tables and eight coal stoves. This store was located beside a main road. Since L2's duck noodle soup was special and very delicious, many people revisited. Then L2's shop was expanded from two tables to five tables. About thirty ducks were consumed daily, he became busy and hired two people to work for him and his spouse also participated. His income was considerable, about ten times that of being employed. L2 operated this business for four years and earned about one hundred thousand yuan.

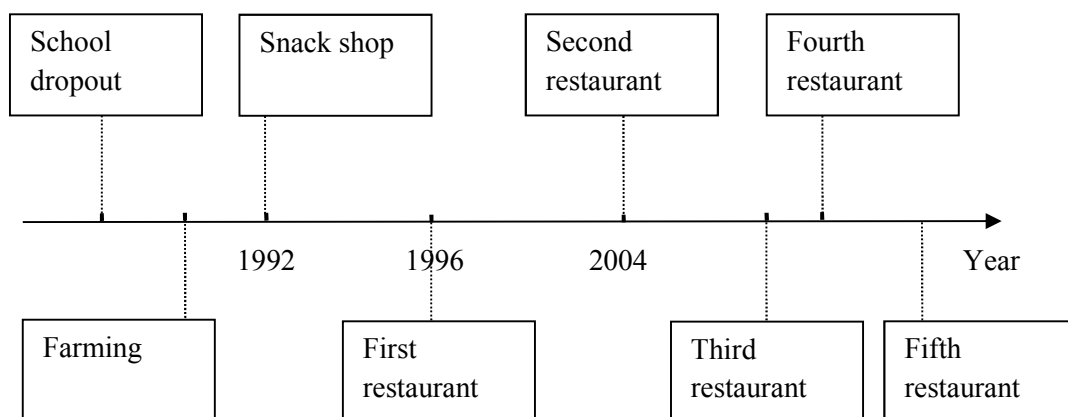
#### **Establishment of a subsequent business**

Many of L2's friends and customers strongly advised him to consider further development by opening a large restaurant, and he did. In 1996, L2 set up a new restaurant. He rented a lot for thirty years which was on the opposite side of the main road, and he built a restaurant on it. This restaurant was considerably large with forty tables and forty employees. Duck noodle soup was the specialty and recommended entree, but different from his previous snack shop, many other gourmet seafood and traditional dishes were offered. The business thrived beyond L2's expectations.

### Operation of subsequent businesses

L2's restaurant was well-known, but instead of remembering it by name, people just called it 'duck noodles soup'. After eight years, in 2004, L2 started to open branches. Currently he owns five 'duck noodles soup' restaurants in different districts but in the same city. Totally, there are over three hundred employees. Overall, L2's entrepreneurial career is illustrated in Figure 4-6.

**Figure 4-6: L2's entrepreneurial process**



### 4.6.4 Description of case 3

#### Establishment of the initial business

D3 was a Business Administration university student. In the second year of his education, his father died of gastric cancer. His father's treatment exhausted all of their savings plus borrowed money. D3 had to make money to pay tuition fees and to support his family. D3 wasn't able to work outside the university since workplaces were too far away. He then learned that most students discarded their

textbooks or sold them to recycling after use. He decided to collect used books and sold them on line for others who needed them.

### **Operation of the initial business**

A new textbook cost about 30 yuan but used only cost 10 yuan. D3 collected used books from students door to door and then posted all the books he collected on line. Most of his customers were from his university. His business went quite well and two of his roommates joined his business. His income not only covered his tuition fees but yielded some for his mother. This business operated for one year and eight months, but then shut down. On the one hand there was one used book store opened on campus, which was very competitive, and on the other hand, he and his roommates were graduating. Even though D3 left this business, during the business's operation his primary financial problem was tackled.

### **Establishment of a subsequent business**

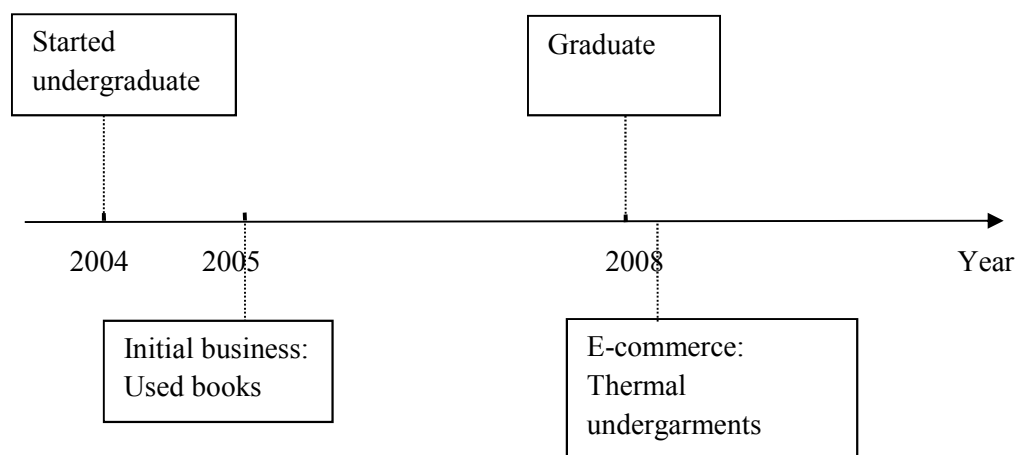
D3's online business experience really encouraged him to set up his own business after graduation. Instead of looking for a job, he planned to open an online store selling thermal undergarments. He had skills and experience of online commerce and his uncle found a reliable supplier for him. His two roommates also participated.

### **Operation of the subsequent business**

At first, the business went well, but in 2008, one mistake almost destroyed his business. They restocked new thermal undergarments which only contained 70 percent cotton, but were labelled as 100 percent cotton. This was not realised until two hundred sets had been sold. At least twenty customers complained. They had to double refund to customers, which cost a lot. Fortunately, this solution satisfied those customers, and no more trouble resulted.

In 2009, their business improved, especially in the winter. That was an extremely cold winter, thermal undergarments went out of stock in supermarkets, and people turned to online sources. His business was extremely good, so that he needed to restock every three days. Totally, fifty thousand sets of thermal undergarments were sold in that winter. They earned eight hundred thousand yuan in 2009. Since that time, his business has been operated well and stably with over 10 percent increase in profit annually. Currently, there are about thirty employees working for him, and his company sells their own brand products. Figure 4-7 then summarise D3's entrepreneurial career.

**Figure 4-7: D3's entrepreneurial process**



#### 4.6.5 Description of case 4

##### Establishment of the initial business

In 1982, when L4 graduated from high school, he was 18 years old. He returned to his village and worked in a village primary school as a teacher. The school was very small with only three teachers and fewer than 40 students. After two years, the school was combined with another two schools and he lost his job. To make a living, L4 started to do some small and informal businesses. He bought

home-grown agricultural products from local farmers then delivered them to town by bicycle and sold them in the market. He did not earn much because he could not carry much on his bicycle. He decided to learn to drive. He spent most of his savings for driving lessons although it was rare and expensive at that time. When he got driving licence, he found that teaching driving was a good business which could yield good money to making a living. He decided to be involved in this business, and then he rented a car and started to do it.

### **Operation of the initial business**

L4 found an empty lot and started to teach. His first student was his cousin. When his cousin was licenced, he joined the business. At the beginning, just a few people came to them, but in the early 1990s, they had more customers. They then bought their own cars, and hired driving instructors. This business expanded enough so that in 1994 they established driving schools. In 2000, they introduced motorbike lessons and in 2003, truck driving. Currently, there are eight driving instructors and 15 other employees.

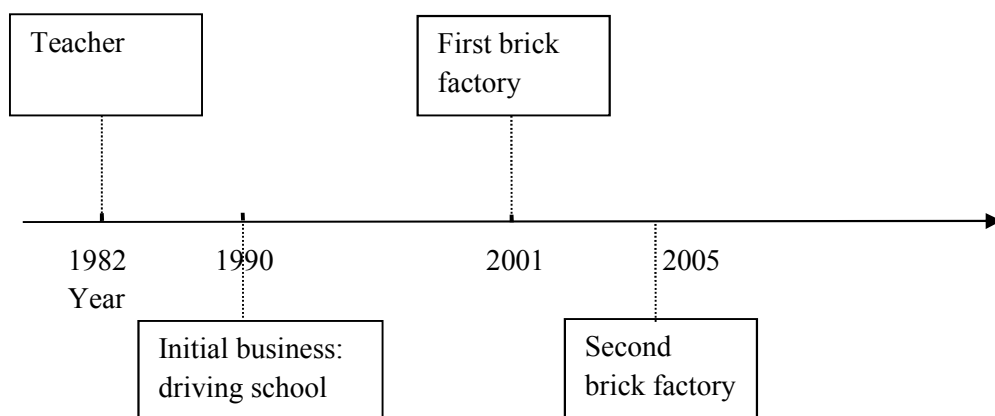
### **Establishment of a subsequent business**

L4's driving school was operated by his cousin so he had more time for other investments. In 2001, L4 started to invest in a brick factory which produced air-added foam bricks. He did not have experience or knowledge of air-added foam bricks before he started. He developed this idea after chatting with friends and realised this brick had a bright future in the market. He then pursued it. The production process was quite mature in other provinces but quite new in his province. L4 rented a lot for forty years and started to build a factory on it.

### Performance of the subsequent business

All equipment was purchased from other provinces since he was the first in his province to explore this opportunity. He and his business partners then diligently and proficiently learned requisite skills and information. The business operated only adequately. However, after three years L4's land and factory were expropriated by the governments for widening the road. L4 then received a large amount of money as compensation. With these funds, he rented another lot and established a larger brick factory. In 2006, in accordance with new energy saving and emission reduction regulations, it became compulsory that all new buildings be constructed of energy-saving materials. L4's air-added foam bricks were energy saving, and soon became star products welcomed by builders. He currently has about thirty full-time employees and many casual seasonal employees. L4's entrepreneurial career development is illustrated in Figure 4-8.

**Figure 4-8: L4's entrepreneurial process**





#### **4.6.6 Description of case 5**

##### **Establishment of the initial business**

X5 started to help his father sell candies when he was only fourteen years old. After graduation from middle school, he worked as an apprentice to a decorator, then to a carpenter and then to a barber, for a couple of years. When he was twenty, he opened a clothing shop, but this business ran unsuccessfully. His income was just enough to pay rent. However in this difficult time, his friends helped him repay some debt and introduced him to clothing production. He shut down his shop and set up a small clothing factory in 1991.

##### **Operation of the initial business**

His factory was only 200 square meters in size with three people at the beginning. With the help of his friends, he received a few orders. X5 worked day and night, customers were satisfied with his work, and he received more orders. However, because his previous business lost money and to establish this plant he borrowed a large amount, he needed to repay gradually. The first two years, X5 rarely rested and consistently worked diligently. X5 was very honest in business and good to friends. More customers came to him and his business improved. By 1995, he had ten employees and his income was considerable.

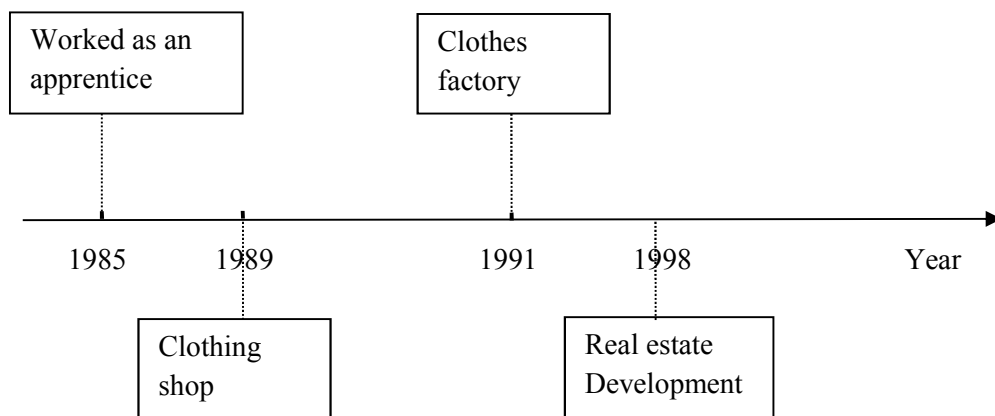
##### **Establishment of a subsequent business**

X5 made numerous friends in business. During 1998, somewhat accidentally, while chatting with friends, he heard that a real estate project would be developed locally. His friends, who were interested in this project, invited X5 to join their team. X5 agreed and he became involved in the real estate business.

### Performance of the subsequent business

This project was very successful; in 2000 they developed a plaza with sixty shops and two hundred apartments. X5 earned his first windfall. At that time, his small clothing factory was not particularly profitable, so he shut it down and dedicated himself fully to real estate. A few years after the plaza project, X5 developed two residential neighbourhoods. Currently he has over one hundred employees and his investments include hotel and luxury apartment development. Overall, X5's entrepreneurial career development is demonstrated in Figure 4-9.

Figure 4-9: X5's entrepreneurial process



### 4.6.7 Description of case 6

#### Establishment of the initial business

Z6's father worked in a State-owned pharmaceutical station. Before he retired, he used his *guanxi* to secure a position for Z6. Accordingly, when Z6 graduated in 1987, he easily secured employment in

his father's workplace, which was a competitive position. Unfortunately in the second year, the mismanagement of this State-owned business caused serious issues and the business became unprofitable. Employees' salaries were cut by half, which barely supported them financially. Z6 needed more income to support his family and in the fourth year, he left because the performance of his company did not improve.

It was difficult to find a good job and Z6 started to plan to work for himself. He heard from friends that freight transport was quite profitable. Consequently, he began to do it with his friends in 1992.

### **Operation of the initial business**

Z6 started this business by renting a lorry and his friends kindly introduced clients to him. At that time, just a few people did this business, so Z6's schedule was full. He and two friends worked as a team. Sometime it took weeks to deliver to other provinces, but Z6 earned good money from that. Z6's younger brother joined him after graduation. He and his brother started to work as a team. They worked together in this field for three years and earned a considerable amount of money. However Z6 started to worry about their future due to freight highjack happening to his peers, some even sustained serious injuries. Z6 decided to leave freight handling and look for new business opportunities.

### **Establishment of a subsequent business**

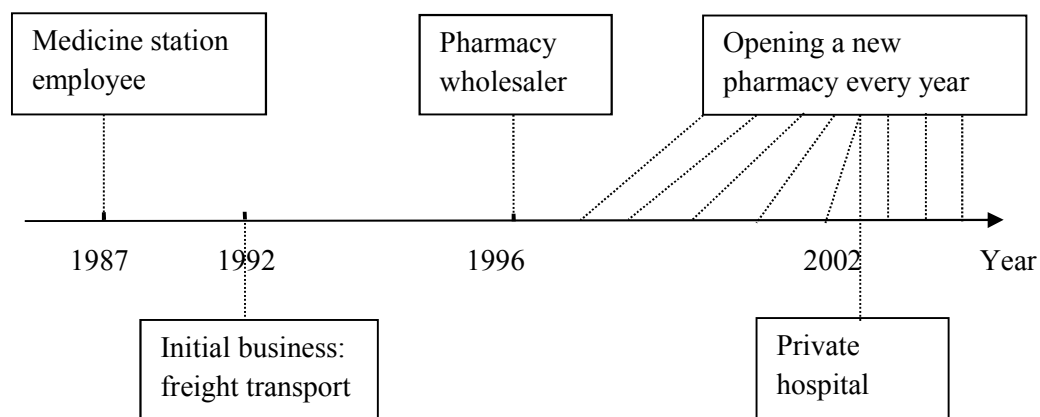
In 1996, there was a rumour that the State-owned pharmaceutical station where Z6 used to work might be privatised. Z6 was excited by hearing this news but he eventually discovered that they only wanted to sell the store, and the pharmaceutical station could not be sold. Nevertheless, Z6 pursued it and bought the property. He then applied to become a private pharmaceutical station but was rejected since it was only State-owned at that time. Z6 persevered. He applied to operate a pharmaceutical warehouse, and this time his application was approved (State-owned pharmaceutical included

processing traditional Chinese medicine and supplying State-owned hospitals, while private pharmaceutical warehouse was a retailer only, and did not supply hospitals).

### Operation of the subsequent business

The location of this store was excellent plus it was well known since the pharmaceutical station was the only medicine supplier to pharmacies before 1992. His business was extremely good due to good services and low prices. Z6's brother also joined him and they started to expand the business by opening more stores. On average they opened one store per year. In 2002, they invested in a private hospital, and when the hospital affiliated with the national medical insurance programme, it became very profitable. Currently, Z6 has 16 pharmacy warehouses and one hospital, with over one hundred employees. Overall, Z6's entrepreneurial career development is shown in Figure 4-10.

**Figure 4-10: Z6's entrepreneurial process**



## **4.7 Data analysis**

This section discusses data analysis includes four parts. The first part is the selection of data analysis methods. The second part discusses the data transcription, translation and editing. The coding methods and process are presented in the third part. The last part demonstrates the emergent themes.

### **4.7.1 The data analysis methods**

Data analysis in quantitative research is dictated by strict protocols based on statistical methods, but data analysis for case studies is not as well defined (Yin, 2003). It is addressed by Yin (2003) that data analysis for case studies consists of examining, categorising, tabulating, testing, and otherwise recombining evidences to address to the research questions (Yin, 2003). As an ongoing process, case study data analysis involves noting themes, clustering ideas, and comparing and contrasting different responses during the course of the study (Yin, 2009). In general, data analysis methods are classified as either confirmatory or exploratory. For confirmatory analysis, the researcher is seeking to determine whether what he expected to find was found or not. While for exploratory analysis, the research design is flexible, trying to explore and interpret the data and aims to understand the data.

Although there are numerous approaches that have been associated with qualitative data analysis, experts have narrowed the approaches. Robson (2002) advises four types of analysis. The first one is the template approach which selects key words from initial reviews of collected data. The second one is the quasi-statistical approach and this approach is based on converting collected qualitative data to quantitative terms. The third approach is the editing approach which is a flexible method and interpretive in nature. The last one is the informal approach which is described as emphasising the creativity and intuition of the researcher.

Similarly, Yin (2003) suggested one of three general strategies to guide the analysis. The first strategy is the theoretical orientation, the propositions that help guide the parameters of the data to be analysed (i.e., what should be omitted and included). The second approach is to test rival hypotheses. The researcher seeks rival theories, a null hypothesis, or other interventions that are commingled with an established intervention. The last strategy, least-preferred approach is to develop a case description that can be utilised when the other two strategies are failing. Based on Yin's (2003) suggestion, in this study, the analysis strategy followed a theoretical orientation since this research is based on several theoretical frameworks to evaluate the specific entrepreneurial phenomenon. Data in this research was analysed continuously through the data collecting process (Miles and Huberman, 1994).

#### **4.7.2 Data transcription and translation**

Editing data in the qualitative research process usually involves assigning descriptive and inferential tags or codes to data (Bryman & Bell, 2007). For this research, the first stage was to transcribe voice records. Transcriptions were done soon after each interview was conducted. This method was advised by Denzin and Lincoln (2003) that voice records must be transcribed immediately after interviews, so that the researcher was able to relive and refresh the memory of the data contained in the interviews. This produced over 90 pages of transcribed evidence. Two copies of these transcriptions were kept as backup files in case of the original transcription lost. This transcription process enables the researcher to easily spot those key issues and patterns and get a better understanding of the data as it progresses. The next step is to translate transcription. Because the participants are Chinese, they all spoke Chinese. Therefore, an independent translator was required to conduct the translation. Even though, as Denzin and Lincoln (2003) argued, translation may result in misinterpretations or inaccuracies, consequently, the researcher found another independent translator to back translate the transcription in order to enhance accuracy. The transcribed texts were firstly translated into English by the author. A method of direct translation was used, which means the transcripts were literally transcribed in order to retain

the original meaning of the conversation in the interviews. The translation was then checked by another researcher who was fluent in both English and Chinese, with several errors and omissions being corrected. Totally over 100 pages of translations were produced. Two copies of these translations were kept as backup files in case of documents lost.

After the translation was done, the researcher followed Creswell's (1998) suggestion to check the data. All transcripts were read through, and notes were taken. The inconsistencies and omissions within transcriptions were picked up and marked. When reading through the final interview translations, several themes were identified, with the key words noted next to the relevant parts of the translations. This process involved several changes and iterations until the most satisfactory themes, which were common across either all or most of the interview translations, were identified. The next step is to develop codes and categories and then sort text and images into the categories, which is described in the next section.

### **4.7.3 Coding**

Miles and Huberman (1994) advised that the data analysis for research commences with a preliminary set of codes based on the perceptual framework of the study, the research objective, key factors apparent from the literature review and research questions. Information related to participants or companies' names was replaced by codes in order to preserve anonymity.

In order to develop codes, this research follows Creswell's (1994:155) eight-step coding process. To begin with, the researcher got a general sense of the whole data. Specifically, all the transcriptions were read through carefully, any ideas which emerged were jotted down. Then, one interview transcript was picked up and read through. During reading, one question was kept in mind: what is this about? Then the researcher tried to find its underlying meaning rather than thinking about the

‘substance’. Any ideas emerged were written in the margin. Similar methods were utilised in the rest transcripts. The next step, the researcher made a list of all related topics then clustered similar topics together. These topics were formed into columns that might be arrayed as major topics or unique topics. Then the researcher went back to the data within the list, abbreviated these topics as codes and wrote them beside related parts of the text and thought about whether new categories and codes could emerge. Subsequently, the researcher tried to find the most descriptive words for these topics, grouped related topics, and then convert them into categories. Lines were drawn between some categories to show interrelationships. When a final decision on the abbreviation for each category had been made, these codes were alphabetised and the data material belonging to each category was assemble. Afterward, the researcher began the preliminary analysis to secure the validity of the coding process. During the preliminary analysis, the researcher also went back to transcripts, and recoded partially. One reason was because several new ideas emerged during the preliminary analysis. The other reason was some mistakes and omissions were found during analysis process. Through this coding process, emergent themes were extracted, which is demonstrated in the following section.

#### **4.7.4 Emergent themes**

Emergent themes are a grouping of elements that are especially unique to the participant group and relate across the expressed dialogue of the collective. Through the coding process, emergent themes were extracted from the expressions in the participants’ declarations and the observations by the researcher. These themes were based on questions designed and derived from the data analysis to better understand the transition process which was experienced by the participants. Although most of these themes were more pervasive across the data set, several of these themes only represented perspectives by some the participants. Regardless of the frequency cited, themes were demonstrated so that a more thorough and inclusionary representation of this entrepreneurial transition process could be comprehended.



Triangulation was utilised in this coding process to reduce researcher bias and expose missing themes. This was done based on Miles and Huberman's (1994) suggestion that using triangulation to demonstrate whether independent measures agreed or, at least, did not contradict each other. The themes demonstrated in this section were checked using peer review. After the use of pseudonyms to assure confidentiality, a colleague was invited to evaluate the thematic representations to consider alternative meaning or additional themes. The colleague was not involved with the data acquisition and was not a part of the data set. By doing this mode of triangulation, the data validity was enhanced, which was consistent with Creswell and Miller's (2000, P 126) suggestion that "...researchers search for convergence among multiple and different sources of information to form themes or categories in a study." consequently, disagreement appeared with several themes. These themes were discussed with the other researcher and then adjusted based on the agreement.

The emergent themes were presented in the order of research questions in the following sections. For research question one: *What are the motivations and contextual factors that 'push' individuals to start initial necessity based businesses?* Two main themes then emerged including NE motivations (necessity-based entrepreneurship motivations) and NE background characteristics (necessity-based entrepreneurship background characteristics). For research question two: *What are the motivations that 'pull' necessity entrepreneurs into the subsequent opportunity entrepreneurship?* One main theme emerged which was the subsequent OE motivation (the subsequent opportunity entrepreneurship motivations). In terms of the last research question: *What are the key factors that determine the shift from the necessity-based start-up to the subsequent opportunity-based entrepreneurship? How do these factors impact the shift?* Two main themes arose including resources for the transition from NE to OE (resources for the transition from necessity entrepreneurship to opportunity entrepreneurship) and opportunities for the transition from NE to OE (opportunities for the transition from necessity entrepreneurship to opportunity entrepreneurship). Table 4-3 summarised the main themes within the study. Each column reflected whether the themes were mentioned within cases, the symbol of "√" meant yes, and the "x" meant no. The themes were presented in table 4-3,

which was then discussed in the next chapter.

**Table 4-3: Main themes within cases**

Themes	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
<b>NE motivations</b>						
Career situations	√	√	×	√	√	√
Financial situations	√	√	√	√	√	√
Family situations	√	√	√	√	√	×
<b>NE background characteristics</b>						
Low entry threshold	√	√	√	√	√	√
Low opportunity costs	√	√	√	√	√	√
<b>Subsequent OE Motivations</b>						
Income generation	√	√	×	√	×	√
Entrepreneurial satisfaction	√	√	√	√	√	√
Growth prospects	√	√	√	√	√	√
Personal interests	√	√	√	√	×	√
Social status	√	√	×	√	√	√
<b>Resources- transition from NE to OE</b>						
<b><i>Guanxi</i></b>						
<i>Guanxi</i> with government	√	√	×	√	√	√
<i>Guanxi</i> with suppliers	√	√	√	√	×	√
<i>Guanxi</i> with relatives & friends	√	√	√	×	√	√
<b>Entrepreneurial teams</b>						
Industry specific experience	√	√	√	×	√	√
Prior founding experience	√	√	√	√	√	√
<b>Set up capital</b>						
Saving from previous	√	√	√	√	√	√
Loans	√	√	√	√	√	√
<b>Opportunities- transition from NE to OE</b>						
New products	√	√	√	√	√	√
New market demands	√	√	√	√	√	√
New inputs	√	√	√	√	√	×
New management methods	√	√	×	×	×	√
New regulations	√	√	√	×	√	√

## 4.8 Summary

In summary, this chapter presented the methodology for this research. It also provides the justification for the selection of the methods. Based on the requirements for a qualitative approach to the research questions, the multiple cases study approach was utilised to meet the exploratory purpose of the inquiry. Based on the case selection criterion, six cases were then selected.

To conduct the multiple cases study, the interview method was used as the main approach for the six cases since the interview method is one of the most important sources of case study information (Yin, 1994). There was a deliberate effort to use triangulation and get information from different sources: entrepreneurs, entrepreneurs' friends, relatives and employees. Additionally, data for case 1 was also collected from the researcher's observation and recall. The researcher had witnessed the entrepreneur's entrepreneurial career for two decades, what he had observed passively in the past was recalled to enrich the information within the in-depth case. The triangulation of data through the utilisation of multiple sources provided a robust platform for analysis (Yin, 2003). Data profiles were displayed next, which included the demographics and description of cases. Finally, the last section discussed the data analysis approaches. In short, it discussed how the transcription, translation and coding were conducted. Emergent themes were also presented. Details of data analyses and results are discussed in the following chapter.

## Chapter 5 Analyses and findings

### 5.1 Introduction

This chapter reports the findings of the analysis process which was divided into five main sections. The first four sections present the analysis and results based on the four research questions respectively. In the last section, the chapter concludes with a summary of the findings.

The first research question was: *What are the motivations and contextual factors that 'push' individuals to start initial necessity-based businesses?* By answering this question, two factors were discussed including the motivations and the background characteristics of necessity-based entrepreneurship.

The second research question was: *What are the motivations that 'pull' necessity entrepreneurs into the subsequent opportunity entrepreneurship?* This research question was discussed by identifying five main factors: income generation, entrepreneurial satisfaction, growth prospects, personal interests, and social status. After identifying the motivations of the subsequent opportunity entrepreneurship, another research question was emphasised, which is: *What are the key factors that determine the shift from the necessity-based start-up to the subsequent opportunity-based entrepreneurship? How do these factors impact on the shift?* This research was answered by focusing on the factors of resources and opportunities. The last research question was: *What is the transition process from the necessity-based start-up to the subsequent opportunity-based entrepreneurship?* Four primary stages of the transition process were noted and a process model was developed to better understand this phenomenon. In the last section, the chapter concludes with the chapter summary.

## **5.2 Determinants of the necessity-based start-up**

***Research Question 1:** What are the motivations and contextual factors that ‘push’ individuals to start initial necessity-based businesses?*

Research Question 1 was answered through the data analysis of six cases. The emergent themes demonstrated that the motivations of necessity-based start-up lie in three main categories including career situations, financial situations, and family situations. In terms of the factors that allowed them to enter the necessity-based business, the main themes of NE background characteristics were extracted which include the low entry threshold and low opportunity cost sub-themes.

### **5.2.1 Motivations: necessity-based start-up**

Those entrepreneurs in this study are currently successful businessperson with good incomes and stable businesses. They were forced to become self-employed at the beginning of their entrepreneurial careers. Even though they were all initially forced to become self-employed, their forced motivations/reasons for their necessity-based start-up varied. Those motivations for necessity-based start-ups are categorised along the themes of career situations, financial situations and family situations.

#### **5.2.1.1 Career situations**

Entrepreneurship was propelled by necessity when there was no other option for work. Individuals were forced to be involved in self-employment when they encountered difficulties of finding jobs. Therefore, for many necessity entrepreneurs, their first foray into business had much to do with their career situations. By analysing the data, it was found entrepreneurs in this study all had problems finding jobs prior to being pushed into necessity entrepreneurship. The job and career situations

therefore became major factors influencing entrepreneurs' decision making. The entrepreneurs' career situations and the impacts on being self-employed are discussed below.

**Case 1:** When J1 graduated from medical school, he refused the assigned job which was in another city. However, when he returned to his hometown he could not find a job in local hospitals. As J1 mentioned in the interview:

*"I was looking for a job in local hospitals, but for one and a half years, I couldn't find one. It wasted lots of time; I could not afford another year simply seeking a job, and I had to make some money."*

One of his employees also mentioned that: *"positions in local hospitals were mainly assigned to local medical school graduates or to those who had strong background and guanxi"*(X1). J1 was from an average family with little *guanxi*, so that securing a hospital position became extremely difficult. However, this unexpected setback did not destroy J1 since he believed there were numerous other ways to make money: *"...then I started to think about doing some small business, and if I subsequently found a job in the hospital, I would go for it."*

**Case 2:** L2 did not even finish middle school and the lack of credentials made it difficult to find a job.

*"When I dropped out of school, I was only sixteen... I played a lot and also farmed with my parents.... When I was about twenty, I couldn't find a job and I didn't want to be an apprentice."*

This bitter unemployment experience made L2 realise the importance of education. He did not want to work as an apprentice. Therefore, there was only one way out *"working for myself"*, as he expressed it.

**Case 4:** L4 worked in the local village primary school when he graduated from the local high school. After two years, the small primary school was combined with another two schools and he lost his teaching job, because the new school did not need as many teachers. The school was combined with other schools because *“Lots people (parents) moved out, the number of students decreased by a half”*, as mentioned by L4. After losing that job, he then could not find a teaching job. Unemployment forced him to consider doing his own small business to make a living.

**Case 5:** X5 also did not gain much education. He worked as an apprentice to a decorator and then to a barber after he finished middle school. But he did not end up being employed. He was striving to find a job, but none of them fitted him. As he put it: *“Working for others didn’t suit me because I expected more but received little [from working for others].”*

**Case 6:** The large-scale restructuring of state-owned enterprises in the 1990s caused significant urban unemployment. Z6 was a victim of the restructuring. He was forced to leave a state-owned pharmaceutical station since the station was nearly bankrupt. Z6 recalled that: *“Our salaries were cut by a half. The business was going down, and there was no reason to stay anymore. It was a waste of time.”* Z6’s employee and also old friend of him N6 stated that *“...that is a right decision for him to leave that station.... When most people were worried about the job, he started to plan his new career [as being self-employed].”*

In summary, a majority of entrepreneurs encountered difficulties in career situations. Evidence showed that five out of the six cases demonstrated that entrepreneurs had this problem in their career development. Their career difficulties were mainly in three dimensions including unemployment, layoff, and dissatisfaction with current jobs. The key factors of career situations are displayed within cases in table 5-1.

**Table 5-1 Key factors of career situations**

Key factors	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
<b>Career situations</b>	√	√	×	√	√	√
- Unemployment	√	√	×	×	√	×
- Layoff	×	×	×	√	×	×
- Dissatisfaction with current job	×	×	×	×	×	√

It was manifest from Table 5-1 that half of the cases showed that entrepreneurs were unemployed before becoming involved in necessity entrepreneurship. The reasons for layoff and dissatisfaction with current jobs were also identified in two cases. Specifically, Cases 1, 2, and 5 showed that entrepreneur participants could not find suitable positions and they were unemployed before starting necessity entrepreneurship. Case 4 demonstrated that the reason of school merges made L4 lose his job. In order to make a living, he had to consider other approaches such as being self-employed. Z6 in case 6 was unsatisfied with his previous job since his salary was cut by a half in the second year. Instead of returning to a similar working situation, he considered doing some business independently. Overall, individuals' decisions to become necessity entrepreneurs revolved around their career situations. This finding therefore led to the following proposition.

**Proposition 1:** Difficulties in career situations such as unemployment, layoff, and dissatisfaction with current job force individuals to leave the labour market and become involved in entrepreneurship.



### 5.2.1.2 Financial situations

Individuals' decisions to become self-employed were directly related to financial situations. Entrepreneurs in this study shared a similarity in this respect. They were all impoverished prior to starting entrepreneurship. In order to support themselves, they were forced into self-employment. Details of their financial situations and the impacts on their decisions to be self-employed are discussed below.

**Case 1:** J1's interest and specialty was medicine, he sought a job related to his area in his hometown for one and a half year after graduation. Meanwhile, he realised that his unemployment added a greater financial burden on his family which was already struggling financially.

*"I was looking for a job for a long time... I didn't make money, but lived and ate at home. This added an extra financial burden on my parents.... They were not rich ... my sisters were too young to work, and were still relying on my parents.... My parents didn't complain about me, but I felt guilty."*

L1, who is currently retired but used to work for J1 as a Chinese traditional medicine pharmacist observed J1:

*"At that time, J1's family was one of the poorest locally, plus there were many young children in his family.... J1 was working hard and very smart, he tried every effort to improve the situation."*

For these reasons, it was important for J1 to be financially independent. He also felt responsible to help his family financially. He realised that he should pick up himself from failure to find a job. Instead of being employed, he started planning working for himself.

**Case 2:** L2 dropped out school because he was lazy and he did not like studying. However his parents were poor and he could not afford to idle about unproductively. When he matured, he felt that he needed to support himself, for which self-employment was the only option for him.

*“We liked gathering and drinking beer. Most of those guys were comfortable and they could afford being lazy, but I couldn’t.... My parents didn’t want to give me money anymore, and they didn’t want to see me become a parasite on them.”*

L2 could not find a job and his financial support was cut by his parents. This pushed him to consider making money by doing small business.

**Case 3:** In the second year of D3’s university life, his father contracted gastric cancer. Thus, all of his family’s savings was spent on medical treatment. As D3’s friend H3 said: *“It was a tough time for him, he could not even afford his tuition fee.”* This unfortunate experience pushed D3 to consider earning money. It was recalled by D3 that: *“I used to play computer games with roommates on days off, but when that happened, I knew I should be a man rather than a kid.”* D3 then quit computer games. He had to think about how to make some money to pay his fees and help his mother repay debts.

**Case 4:** In the early 1980s, L4 started to consider making money when he worked as a teacher. He did not get paid in cash but earned ‘work points’ usable to exchange for living goods (work points were a type of pay in collectivist society). As he stated in the interview: *“My work points were higher than those for being a farmer, but still insufficient.”* However, L4 was happy with what he had contributed to the education of his village, so he did not leave until the combination of schools. When he left the school, he started to consider setting up a small business.

**Case 5:** X5 lost money from his initial business which was a small clothing store. He owed an amount of money to friends. His business was unprofitable. He was seeking a more appropriate business and wished to make money to repay his loans.

*“My clothing store business wasn’t good. I lost lots of money in that business and I owed a large amount to friends. Fortunately, they were very kind to allow me repay later on.”*

**Case 6:** In Z6’s second year in the state-owned pharmaceutical station, his salary was cut by a half due to the poor performance of the station.

*“The state-owned sectors suffered the most difficult time in early 1990s. The terrible situation does not only happened in my station, but also other sectors... A large amount shut down then, so we were victims.”*

Z6’s previous salary was just adequate to support him. However, cutting by a half then made his life more difficult. When he realised this situation would not change, he decided to leave.

In summary, entrepreneurs’ first forays into business had much to do with financial situations which played significant roles in influencing their decisions. The main financial issues that forced them to be self-employed were mainly in the forms of financial independence, repaying loans, and/or supporting families. The sub-themes derived from the interview data, which reflect the financial reasons, are displayed in Table 5-2.

**Table 5-2: The key factors of financial situations**

Key factors	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
<b>Financial situations</b>	√	√	√	√	√	√
- Financial independence	√	√	×	√	×	√
- Repaying loans	×	×	√	×	√	×
- Family needs	√	√	×	√	×	√

As can be seen from Table 5-2, four entrepreneurs from Cases 1, 2, 4, and 6 had the combined reasons of financial independence and supporting family, respectively. D3 in Case 3 and X5 in Case 5 were struggling for paying off the loans.

The data also showed that four entrepreneurs from Cases 1, 2, 4, and 5 were seasoned businesspeople who started their initial businesses in the late 1980s which was a period when China had just experienced economic transformation and most people were impoverished. These four entrepreneurs were bothered by their financial issues and started businesses from nothing. When they could not find jobs, they had to do casual jobs or engage in informal small businesses, not only to financially support themselves by also to support their families. Additionally, the data also revealed in this stage, entrepreneurs' financial aspirations were solely to earn enough money to make a living rather than becoming wealthy. This leads to the following proposition.

**Proposition 2:** Financial difficulties, such as the needs for financial independence, supporting families, or repaying loans, are key factors that lead to necessity entrepreneurship.

### 5.2.1.3 Family situations

Besides career and financial situations, the data also revealed that family situations had strong influences on becoming self-employed.

**Case 1:** J1 did not choose to work in another city due to the consideration of his family. Both J1's parents were in poor health and his younger sisters were too young to be independent. As J1 recalled in the interview:

*"I was assigned to a hospital which was three hundred kilometres from my home town ... too far away.... My parents' health worsened year by year, especially my mum. She had asthmatic bronchitis, sometimes, when it attacked, it was horrible .... When I graduated, the school assigned me to work in another city which was 300 km from my hometown. I couldn't go and leave my parents alone at home. I wanted to take care of them, and I knew medicine... I decided to do my own business. On the one hand, I could support myself and family financially, and on the other hand, I could take care of my parents."*

J1's previous employee L1, who was a pharmacist of traditional Chinese medicine, told the researcher in an informal conversation that: *"J1 was a dutiful son. His mum had been weak since J1 was young. J1 did all the housework because he wanted his mum to have more rest."* For his family, J1 did not accept the offer from that hospital. It seems the early stage of his career was stung by losing that opportunity, but as another J1's employee said in the interview: *"God is fair, for his family, he sacrificed that chance, but he started another beautiful career."* (W1, manager)

**Case 2:** L2's idea of doing small business was supported heartily by his parents. A big push came from his parents that turned his idea into a real business. As L2 mentioned in the interview:

*“They were so surprised when I told them I wanted to start a business, although, initially I didn’t know the business type.... They promised me, if I needed money, they would try their best to support me... I was really touched.”*

G2, one of L2’s friends and employees also mentioned that *“He finally made it happen, even though it was a small store, but his parents were very happy when they saw their son become independent.”*

**Case 3:** The unfortunate experiences of D3’s father pushed the family into a crisis. D3’s mother borrowed considerable sums for his father’s medical treatment. When his father passed away, the burdens fell to his mother. She was selling sports lottery tickets in a small shop, and the income was inadequate to repay the debt. D3 wanted to support his family financially, so that he planned to engage in small business for financial gain.

**Case 4:** When L4 was still a young child, his father died in an accident. L4 grew up with his mother only and they had been living in poverty. When L4 graduated, his mother was too old to farm. She had to rely on L4. As L4 described in the interview that: *“My mum had me when she was 35 years old. She wasn’t working when I graduated.... I wanted to make more money and give her a better life.”* With this objective in mind, L4 worked diligently. He wanted to attain his goal as soon as possible.

**Case 5:** X5’s father had a strong influence on X5 in terms of doing business. As he recalled: *“My dad asked me to sell candies as a street vendor when I was only 14 years old.... He wanted me to learn how to do business.”* With this influence, X5 grew up with the idea of doing business. When he could not find a fitting job, he started to consider opening a clothing shop, this idea was therefore supported by his parents who strongly encouraged him to do so. His parents also gave him a hand, especially financial support.

In summary, according to the data illustrated within cases, the motivations of family situations were mainly in two areas: family responsibilities and family encouragement. These two key factors are shown within cases in Table 5-3.

**Table 5-3: The key factors of family situations**

Key factors	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
<b>Financial situations</b>	√	√	√	√	√	×
- Family responsibilities	√	×	√	√	√	×
- Family encouragement	×	√	×	×	×	×

All entrepreneurs started initial businesses when they were young and unmarried. Family responsibilities and family influences were mainly from their parents. Specifically, in terms of family responsibility, J1 wanted to take care of his parents and gave up a hospital position in another city. L4 wanted to provide a better life for his mother and worked hard to make money. D3 felt responsible to help his mother reduce her heavy financial burden. Due to family influence, L2 was encouraged by his parents to be self-employed, and X5 was taught by his father to do business. Both family influences therefore played driving force roles that have impacts on individuals' decisions to be self-employed. This led to the following proposition.

**Proposition 3:** Family situations, including family responsibilities and family encouragement, are key factors that lead to necessity entrepreneurship.

#### 5.2.1.4 Summary of the motivations of necessity-based start-up

The data analysis demonstrated that these entrepreneurs all embarked on their initial businesses, because they were forced to be involved in necessity-based entrepreneurship. It further revealed that the motivations were mainly in three categories: career situations, financial situations, and family situations.

The career situations at that time were a major factor that prevented those individuals from pursuing paths to employment. Their career difficulties were in the forms of unemployment, layoff, and dissatisfaction with current jobs. In terms of financial situations, the findings also reflected that career situations were one of the major reasons which pushed individuals to consider self-employment. This motivation was evidenced by all these six cases. The main financial difficulties revolved in three main dimensions including financial independence, repaying loans, supporting families and combinations of these three factors. Entrepreneurs also considered family situations in choosing their entrepreneurial careers; family responsibilities and family encouragement were found to be the key factors of family situations on motivations. These motivations are summarised in Table 5-4 below.

**Table 5-4 Motivations for considering necessity-based entrepreneurship**

<b>Career situations</b>	<b>Financial situations</b>	<b>Family situations</b>
- Unemployment	- Financial independence	- Family responsibility
- Layoff	- Repaying loans	- Family encouragement
- Dissatisfaction with current jobs	- Supporting family	



## 5.2.2 Background characteristics: necessity-based start-up

Motivations of participants show that they started initial businesses for forced reasons, but the choice of that specific business and the reasons allowed them to start that specific business remained unknown. By reviewing their interviews, it was found that they shared some similarities. The theme of background characteristics then emerged and was highlighted, which includes sub-themes of low entry threshold and low opportunity costs. The findings are presented in this section.

### 5.2.2.1 Low entry threshold

Low entry threshold meant that there were few barriers for individuals to become involved in necessity entrepreneurship. The data had revealed that the low entry threshold was one of the most frequent factors that allowed individuals to found necessity entrepreneurship. Detailed discussion follows.

**Case 1:** J1's initial business was a small grocery which was very common and easily set up at that time. It is evidenced by W1 (manager) that "*J1's opening of that grocery wasn't complicated.*" As J1 said he only needed to rent a shop and he did not even need to apply or register officially. J1 did not hire employees when he established his grocery. Because this shop was small, about 20 square meters, he ran this business himself. As J1 mentioned in the interview:

*"It was a hard time, I performed all functions. I was a carrier, cashier, and purchaser... I did everything. I didn't hire people because I was full of energy at that age. I could do it all myself plus I owed friends and relatives money that I needed to repay."*

Setting up this business also cost a small sum. He borrowed about two to three hundred yuan (about 4-5 months' income of a normal employee) from relatives and friends, partially paid the rent, and the purchase of goods. J1 recalled that: "*My relatives and friends were supportive and sympathetic. They*

*knew my situation and didn't hesitate to lend money to me.*" J1 set up this business alone, he was busy but he did not need to pay for employees until the second year. J1 described that all he needed at the beginning was to find a store and suppliers.

**Case 2:** It was not difficult for L2 to enter his initial business which was a snack shop. As he described in the interview, he started with eight coal stoves and two tables. *"I rented a small store by the main road, and spent some money on tableware.... It was very simple with eight coal stoves and two tables. That was all."*

L2 did not receive professional training, he was self-taught. L2's cooking skills also surprised his chef G2 who has been working for L2 for more than twenty years. G2 addressed: *"L2 self-learned cooking, he is talented, he is better than so many chefs."* The experience and skills of cooking duck noodles since his childhood gave L2 the idea of selling duck noodles in his snack shop. *"I did not have any professional cooking training before that, but I had the recipe for cooking duck noodles. Then I started to do this."* (L2).

To start this business did not cost him much. His parents had some savings. He only borrowed a small amount from relatives. Like other self-employed, he started by himself, which saved on expenses. G2 commented: *"His parents kindly gave him their savings. It wasn't a lot, but quite enough for a small store."*

**Case3:** D3's first business was an online book store targeting students from his university. He had knowledge of website design which he learnt from an e-commerce course. He learned that most students threw text books away when they finished courses. D3 bought those used books, displayed, and sold them online. As D3 stated: *"Even though new books were not expensive, used books only*

*cost 20 percent of the price.... It wasn't hard, simply buying used books from students, and then reselling others."*

D3's books were shown online, with no rent and no other fees required. All of his outlay was on buying books from students. As he joked in the interviews: *"One kilo of used books was about one Yuan.... I spent a few hundred Yuan, and then my room was filled with garbage."*

**Case 4:** L4 started his initial business in a very informal sector. He delivered agricultural goods from his village to the local market for sale. As he said: *"It was a non-technical job, all you needed was diligence because you needed to get up very early and go to bed late."*

When L4 left his job at the primary school, he had little ready cash. When he decided to do this business, he reached an agreement with local farmers that he bought their agricultural products and paid the following day. It was mentioned by L4's employee T4 that *"L4 was a very honest businessman, at that time, most farmers were happy to sell things to him."*

**Case 5:** X5's initial business was a small clothing store, at that time, being self-employed and running a small clothing store was very common. As X5 stated in the interview that: *"My parents gave me some seed capital. I rented a store and then opened it."* Since X5's initial business was a small clothing shop, he did not need to invest a lot of money. Most spending was on store decoration and rent, which was covered by the capital from his parents.

**Case 6:** When Z6 left the state-owned pharmaceutical station, he was introduced by his friends into the freight transport business. At that time, very few individuals were doing this business. He felt that he could make a living from this business, and then embarked on it.

*“In 1992, two of my friends earned over a hundred thousand by delivering TV sets to Xinjiang province. For me, it was an incredible amount.... Introduced by them, I rented a lorry, and worked with them.” - Z6*

Z6 had some savings when he left his job. However his money was inadequate to buy a lorry. Thus, He had to rent a lorry for his new transportation business. Since he did not hire people, the only expense was paying the rent and the lorry maintenance. The business overhead was not significant so that Z6 could afford it when he started it. As recalled by N6: *“Z6 was very careful on spending each cent at the beginning. He knew that even though he could start it, he wasn’t sure whether he could make a profit.”*

In summary, it can be seen that entrepreneurs did not encounter many hurdles in setting up their necessity-based businesses. This was because the necessity-based entrepreneurship was usually in the form of informal sectors or tiny businesses. Consequently, establishing the businesses were less time consuming and complicated. The data also revealed that the low entry thresholds were mainly in three areas: low regulation restriction, low requirement for skills, and low financial cost. These three factors of low entry threshold within cases are displayed in Table 5-5.

**Table 5-5: The key factors of Low entry threshold**

Key factors	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
<b>Low entry threshold</b>	√	√	√	√	√	√
- Low regulation restriction	√	√	×	√	√	√
- Low requirement for skills	√	√	×	√	√	×
- Low financial cost	√	√	√	√	√	√

As can be seen from the table, five cases illustrated that low regulation restriction was one important factor which allowed starting with informal or small businesses. Specifically, two entrepreneurs, specifically from Cases 4 and 6 were involved in informal businesses and three entrepreneurs separately from Cases 1, 2 and 5 started with small businesses. Those entrepreneurs stated that they did not even need to register their businesses officially. This reason was explained by L2 that: “...for this small store, related administrative departments paid no attention to you as long as you did not cause big trouble.” As a result, individuals did not even need a licence to open a small store.

Low requirements for skills were evidenced from four cases including Cases 1, 2, 4, and 5. Entrepreneurs from these four cases all shared a similar opinion of being a necessity entrepreneur: “It was low-skilled work and all you needed was diligence.” All entrepreneurs stated that establishment capital was a major concern. Data showed that entrepreneur participants were impoverished prior to starting entrepreneurial careers. Consequently, it was difficult for them to raise much seed money. However, evidence from cases indicated that entrepreneurs’ necessity start-ups did not cost much, especially for participants (in Cases 3, 4, and 6) who were involved in informal businesses. For entrepreneurs in Cases 1, 2, and 5 who were in relatively formal businesses, it did not cost them a great deal and they were partially supported by parents, friends, and/or relatives.

The above discussion of the low entry threshold of necessity-based entrepreneurship therefore led to the proposition below.

**Proposition 4:** Low entry thresholds, such as low regulation restriction, low skills requirement or low financial cost, are key factors that allow individuals to be involved in necessity entrepreneurship.

### 5.2.2.2 Low opportunity costs

The cases indicated that considerations of opportunity costs had impacts on individuals' decisions to become self-employed. However, the data also demonstrated that those entrepreneurs' necessity-based start-ups carried very low opportunity costs. The primary reasons were that their choices were very limited. They were initially pushed to become self-employed. Further, most participants stated that they did not take much risk by starting small businesses. If the businesses failed they might seek other business opportunities. Specifically, five entrepreneurs (in Cases 2-6) did not consider returning to employment as alternatives. J1 from Case 1 was operating his small business while waiting for a hospital position. Detailed information is presented in the following sections.

**Case 1:** Initially, J1 planned to run his grocery business and seek a hospital job concurrently. As he stated:

*“Opening a grocery tackled my current issue. I was waiting for opportunities.... The business was very small. If I failed, I might attempt another business or I might have found a job.”*

**Case 2:** Before L2 started his snack shop he farmed with his parents. As a Chinese farmer, he received the lowest income, so his opportunity cost to open this shop was foregoing farming. As stated by L2: *“If I didn't run it well, I'd just shut it down.”* L2's employee K2 also shared this opinion, she said that: *“It wouldn't be worse... doing anything other than farming was much better at that time.... If he failed, he could attempt another business rather than returning to farming.”*

**Case 3:** D3 was still a university student. He was worried that operating this business might have a negative impact on his study initially. Due to this concern, he carefully planned his study and work and strived to achieve a feasible balance. He did not sacrifice his study time and he simply took full advantage of his leisure time for this business. It was recalled by Q3 that: *“Doing this business didn't*

*consume all his time, instead, he studied more diligently than before.... He only stopped wasting time on basketball, computer games, shopping, and other diversions.”*

**Case 4:** L4 was laid off before he started working for himself. The opportunity cost was not a concern for L4 since being self-employed was the only approach for him to support himself (when he worked in the primary school, he was paid by ‘work points’ rather than cash).

**Case 5:** X5 had difficulty finding an appropriate job. As he stated: *“I expected more, but received little”*. The only way left for him was to be self-employed. There were limited choices, either to be self-employed or get a low-paying job.

**Case 6:** It was possible for Z6 to find a related job in medical industries. However, most were state-owned and they all faced similar performance declines. As recalled by N6: *“It was a nightmare! The state-owned companies became even worse, but no one cared and all were reluctant to improve the situation.”* The prospects did not look promising, so that Z6 was afraid to return to this field. Instead of wasting time there, he then considered working for himself.

*“I tried to find other jobs, but similar thing could happen to me again.... When I was introduced to the transport business, I decided to do it.... If I failed, I would seek other businesses, but no returning to be employed.”*

Overall, the data shown within the above cases demonstrated that necessity entrepreneurs perceived low opportunity costs to become involved in necessity-based entrepreneurship. A majority of entrepreneurs did not want to return to employment, most declared that if they failed, the failures would not destroy them. They would try to find other businesses. This was addressed by X5 *“We were born to do business, and if we don’t succeed initially, we’ll carry on, and finally arrive there.”* They

did not perceive much risk in self-employment, because “*This was the last thing I could do to make a living,*” said by L2. The above discussions therefore lead to the following proposition.

**Proposition 5:** Low opportunity costs are key factors that allow individuals to become involved in necessity entrepreneurship.

### 5.2.2.3 Summary of the background characteristics of necessity-based start-up

Having encountered difficulties pursuing promising professional careers, individuals considered self-employment. By analysing the data, two reasons were uncovered to understand what factors allow them to do so, including low entry threshold and low opportunity costs.

The low entry threshold was evidenced in all six cases. Since most entrepreneurs started with small or informal businesses, there were few entry barriers for them to establish businesses. Especially in the late 1980s and early 1990s, official registrations of small businesses such as grocery stores were not required. The low skill requirement was also found to be an important factor of the low entry threshold. The small and informal businesses that entrepreneurs founded usually required few skills. Low entry thresholds also included low financial cost which was also advantageous to begin small businesses. Those entrepreneurs were poor prior to starting businesses, affording a large seed capital sums was infeasible, which always constrains doing business. However, the case analyses demonstrated that the necessity-based businesses appeared to be small or informal, which were characterised by what L2 described: “*a cheap and affordable start-up*”.

Another reason was the low opportunity costs. Individuals were forced to become self-employed and did not have other options to make livings, “*the only way out was to hire yourself and operate a small business*”, described by L4. In this regard, the low opportunity costs encouraged decision-making to become involved in necessity-based entrepreneurship. The perception of low opportunity costs was also found to have much to do with the perception of risks. However, because necessity-based



entrepreneurs were initially forced to become self-employed, they perceived low degrees of risk, and most entrepreneurs shared similar views, if they failed in one business, they would turn to others.

### **5.3 Motivations of the subsequent opportunity-based entrepreneurship**

***Research Question 2:** What are the motivations that ‘pull’ necessity entrepreneurs into the subsequent opportunity entrepreneurship?*

A large portion of necessity-based entrepreneurs do not go further in their entrepreneurial careers, some stay in, some drop out. The entrepreneurs in this study had shown real drives and determinations to succeed not just in the initial necessity-based entrepreneurship, but to achieve higher levels of success in entrepreneurial careers by establishing larger businesses. Setting out to further their entrepreneurial careers did not really feature in their initial motivations, but emerged in their willingness to face challenges and achieve higher levels of business success. These aspirations evolved because they ran their initial necessity-based businesses successfully, which encouraged them to pursue and discover more entrepreneurial opportunities and establish new businesses based on these opportunities.

The data showed that subsequent opportunity entrepreneurship was established after an average 5.1 years in average of running the initial businesses. Five participants quit their initial businesses when new businesses were established. What sets those participants apart from other necessity-based entrepreneurs is their willingness and capability to further develop their entrepreneurial careers. Those participants shared willingness to establish new businesses, even though their motivations varied, categorised along the themes of income generation, entrepreneurial satisfaction, growth prospects, personal interests, and social status. Details of each theme are discussed in following sections.

### 5.3.1 Income generation

The data showed that in the necessity-based entrepreneurship phase, income expectations were not that significant as long as they could support themselves. Nevertheless as they stepped out of financial straits, they started to look forward with higher income expectations. These income expectations were a major motivation to establish the subsequent opportunity entrepreneurship. Underlying all these reasons were desires for economic prosperity not only for themselves but also for their families.

**Case 1:** J1's incomes from groceries were adequate to support his family, but he wished to earn more. As he stated: *"Business people always want to make more money.... When I realised I had the opportunity to open a pharmacy, I felt it would be very profitable."* His employee M1 also claimed: *"J1 enjoyed making money, and could work 24 hours a day."*

**Case2:** L2's snack shop ran extremely well, his income was considerable. He did not have plans to expand his catering business until his friends and customers strongly suggested him do so. As L2 said: *"...they told me hundreds of times that I could earn much more by opening a fine restaurant.... We all want to make more money"*. W2 (GM, works with L2 for 20 years) also called this money orientation: *"I knew numerous bosses, and none of them disliked making more money."*

**Case4:** L4's understanding of entrepreneurship was to work diligently and never stop earning money. He reported during the interview: *"I wanted to make more money to provide a better life for my mother....I earned good money, but to earn this much, I also needed to invest considerably and spend a great deal."* L4's diligence was evidenced by his friend B4 who stated: *"L4 worked at least 12 hours a day, and was eager to make all the money in the world."* When L4 saw a good business opportunity, he did not hesitate to take it. *"He likes making more money and he is very wealthy, but he lives like a middle class worker, no luxurious clothes, car, or other things."* (T4, L4's accountant)

**Case 5:** X5 had experienced several small businesses at the beginning of his career and he earned good money from those. However, he kept looking for business opportunities since he wished to make more. This aspiration was explained by his philosophy, as he said *“This is the nature of human beings, you always want to climb to a higher position from wherever you are.”*

In summary, the reasons for desired increased incomes revolved several categories. One key was personal aspiration for more income generation. This was influenced by the culture that was mentioned by L4 and X5 *“as a businessperson, making more money was always the priority”*. The other reason was because that concurrent with business operation, more network connections were established, therefore they needed to increase incomes to maintain this network. This relationship was described as *“earn more and invest more”* by L4. Additionally, the reason to provide a better life for his family was mentioned by L4, the familial concern for income generation also played a vital role.

Therefore, the willingness to generate more incomes encouraged necessity entrepreneurs to seek further entrepreneurial opportunities and advance further in their entrepreneurial careers. Thus, when these necessity entrepreneurs perceived lucrative entrepreneurial opportunities, they seized them and exploited these opportunities. These discussions lead to the proposition below.

**Proposition 6:** The willingness to increase incomes is a key factor that encourages necessity entrepreneurs to become involved in subsequent opportunity entrepreneurship.

### **5.3.2 Entrepreneurial satisfaction**

When those participants were initially forced to become self-employed, these reluctant choices barely satisfied them with their entrepreneurial activities. However, the data showed that during their initial businesses, they earned satisfactory livelihoods through self-employment, their scepticism as to

necessity-based start-ups on subsequent entrepreneurial pursuits decreased. Instead, they preferred to continue self-employment success rather than to revert to paid employment. Entrepreneurs therefore wished to continue their entrepreneurial careers and they deliberately searched for further entrepreneurial development.

**Case1:** For J1, The entrepreneurial satisfaction is mainly determined by incomes. J1 operated the grocery for two- and- a- half years, he earned about nine thousand yuan at that time which was four times higher than the income of a physician working in a hospital. He was happy with this income. This amount was J1's "first pot of gold".

*"In the first year, I repaid money to my friends and relatives.... I earned more money in the second year, I was happy with my income... it was hard work, but yielded much more than being employed."*

**Case 2:** L2 ran his snack shop for four years. He was happy with his business, because he earned about a hundred thousand yuan, which was a huge amount from a small store. L2 joked that: *"If I kept farming, I could not earn one hundred thousand during the rest of my life."* L2's satisfaction of doing business is also evidenced from W2 who said L2 was pleased with his business: *"When customers made compliments, he was excited for the whole day no matter how busy it was.... He gained more confidence by successfully running that business."*

**Case 3:** The previous entrepreneurship experience encouraged D3 to continue his entrepreneurial career. He stopped his business for one year because he was preparing his graduate thesis. After graduation, he decided to set up his e-commerce business.

*"Looking for a job was beyond my consideration after graduation. I had background and experience of online business. I was considering what kind of business suits me and that I can do online."*

D3's friend H3 stated: *"It's so sad he left his previous business, but he was happy with what he had done."* However, leaving this business did not mean D3 would return to paid employment, instead, his aspiration for doing business increased. It is recalled by Q3 that *"He was totally in, since that time, he never stopped looking for business opportunities."*

**Case 4:** Working hard on the business became a L4's habit. He said: *"I felt that I was part of my business, and I enjoyed doing my business.... Once I started, I could only keep going; anyway I think I liked it."* L4's friend B4 also said: *"L4 was a workaholic, he worked long hours daily, and he enjoyed every success from his results."*

**Case 5:** X5 operated several businesses before he became involved in real-estate. Some of his previous businesses were money-losing, but he felt he matured during each failure. He treasured his business experience, and wished to further develop his entrepreneurial career.

**Case 6:** Unlike other participants, Z6 left his previous business because he did not like that business. As he stated in the interview: *"The freight delivery business was a high-risk business. Many friends' trucks were robbed in rural areas... it was dangerous."* Even though, Z6 liked having his own business, Z6's brother and manager of his current business C6 stated that: *"Doing our own business made much more money than working for others."*

In summary, entrepreneurs' entrepreneurial satisfactions stemmed from operating their initial businesses. Even though they were initially pushed to start necessity-based entrepreneurship, they operated businesses very well, which motivated them to continue their entrepreneurial careers. Based on the above data displayed in cases, necessity entrepreneurs' satisfactions of their initial businesses were primarily in three areas: financial satisfaction, sense of achievement, and lifestyle satisfaction. These three factors within cases are report in Table 5-6 below.

**Table 5-6: The key factors of entrepreneurial satisfactions**

Key factors	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
<b>Entrepreneurial satisfactions</b>	√	√	√	√	√	√
- Financial satisfaction	√	√	√	√	×	√
- Lifestyle satisfaction	√	√	√	√	√	×
- Sense of achievement	×	√	×	√	√	×

For financial satisfaction, it was evidenced that necessity entrepreneurs earned a satisfactory livelihood through their previous businesses, which was greater than their initial expectations. These incomes did not only help them make livings, but also allowed them to save for future use. The data also reflected that entrepreneurs were used to the life of being entrepreneurs, and they preferred this lifestyle to employment. Being an entrepreneur gave them more independence and flexibility. Further, evidence demonstrated that a majority of entrepreneurs were hard workers and working hard also became a habitual lifestyle. In terms of the factor of sense of achievement, successful operation of previous businesses also made necessity entrepreneurs perceive degrees of success. This sense of achievement motivated them to pursue higher success level.

Therefore these satisfactions encouraged necessity-based entrepreneurs to stay in entrepreneurial careers. However, their initial necessity-based businesses were usually tiny or informal. Consequently, setting up a new business to achieve a higher level of success was contemplated by necessity entrepreneurs. Regardless of whether entrepreneurs deliberately sought further entrepreneurial opportunities or these opportunities emerged accidentally, those necessity entrepreneurs seized lucrative

opportunities and exploited them by establishing new businesses based on those opportunities. The above discussion therefore leads to the proposition below.

**Proposition 7:** Entrepreneurial satisfaction, which was gained by necessity entrepreneurs from good performance of initial necessity-based businesses, encouraged them to further their entrepreneurial careers by becoming involved in subsequent opportunity entrepreneurship.

### 5.3.3 Growth prospects

Growth prospects are other major reasons for participants to further develop and engage in subsequent opportunity entrepreneurship. For participants, financial constraints were the main barrier in their necessity start-up stages. As their businesses matured, growth seeking became a consideration which triggered their deliberation to seek further development.

**Case 1:** J1 in particular did not see his future entrepreneurial development by staying in the small grocery business. When he perceived an opportunity to engage in a medical business, he did not hesitate to avail himself that opportunity.

*“There were too many grocers around. Lots of them had been operating these businesses all of their lives.... Yes, they could earn money, but there was little growth. This was also my concern.”*

J1 did not have a defined plan when he initially employed himself. He was working hard to feed his family and himself without considering his entrepreneurial future. However, after two years of doing business, he considered further development, especially when he became aware that private individuals were allowed to open pharmacies.

*“I didn’t realise I would have the opportunity to return to my field, and I didn’t see the future. I didn’t deliberately look for other businesses. What I did was working hard. Operating a medical business was quite a transition.... I sense the future of pharmacies will be bright.”*

**Case 2:** L2’s snack shop was small. He expanded it by adding three more tables, which had maximised the capacity. He sought development, and in response to advices from customers he then considered opening a fine restaurant. *“I only sold duck noodles initially, but for a fine restaurant, I needed to offer more choices. I started to sell seafood and other local specialties.”* (L2) It was also addressed by L2’s financial manager K2: *“L2 made the right decision. Only by investing in a fine restaurant could his business grow.”*

**Case 3:** One major reason that D3 left his previous online book selling business was due to graduation and the business growth limitation. Q3 (supervisor of D3’s company and also an old friend of D3) recalled that: *“No matter how good this business was, it was in the context of one university. Once you graduated, that was it.”* Moreover, this online used-book selling business was informal, D3 wished to set up a real e-commerce company to utilise skills he learned from the university and practical experience. *“An informal business is usually inconsistent and business growth was limited.... It was ok at the beginning, but when you thought about the future, it wouldn’t work.”* said D3.

**Case 4:** When L4 was informed that there was no air-added foam brick factory in his province, he was excited. He stated that: *“I was thinking that once I started doing this, I wanted to dominate the market in my province.”* L4 had a clear plan for his business growth, not only in one business he was also looking for any other good business opportunities.



**Case 5:** To develop was also a significant force which motivated X5 to create his “business kingdom”. As he said, *“I really cannot encapsulate the reason, but traditionally, once you do business you always want to expand it.”* X5’s personal assistant W5 also agreed with X5’s idea of expansion, he stated, *“If you don’t grow, you will be eaten by a bigger fish.”*

**Case 6:** Even though that Z6 made good money from his freight delivery business, he perceived this business would be very competitive in the following years. One main reason Z6 reported was, *“It was more like an unskilled business. When I did this, there were just a few people who had truck driving licences, but now, a lot.”* For further career development, Z6 believed that a pharmacy was more reliable and he stated *“There were very few pharmacies locally, and I perceived that the future was bright.”*

In summary, the above data within cases illustrated that entrepreneurs’ growth aspirations emerged during later stages of their initial businesses. This was due to good performances of their initial businesses which pulled them out of financial difficulties, and as their businesses and lives improved, their motivations to engage in business shifted from ‘reluctance’ to ‘willingness’. However, the initial necessity-based start-ups did not always lead to significant increases in high growth value-added businesses. In this regard, entrepreneurs looked for other entrepreneurial opportunities for growth. Data further revealed that their growth seeking was mostly in familiar and understood fields particular to them. With understanding and knowledge of specific industries, they could better perceive development futures. Therefore, they exploited the entrepreneurial opportunities by establishing subsequent entrepreneurship when lucrative entrepreneurial opportunities presented. Thus, these discussions lead to the proposition below.

**Proposition 8:** The consideration of business growth encouraged the necessity entrepreneurs to become involved in subsequent opportunity entrepreneurship.

### 5.3.4 Personal interests

Even though the pursuit of economic goals was always the priority in engaging in businesses, it was interesting to discover that personal interests or hobbies played roles in influencing entrepreneurs' venturing decisions. Initial involvement was propelled by necessity however, with their entrepreneurial career developments, their motivations shifted from necessity to choice. In this stage, they considered other factors rather than merely being concerned with the monetary side of things. In this regard, entrepreneurs' personal interests therefore had significant impacts on their choices. The following cases then illustrated the influence of personal interests on the subsequent entrepreneurship.

**Case 1:** For J1, his speciality and personal interests was medicines. When he realised an opportunity in the medical industry was opening for him, he sincerely wanted to take it. Although his current business was good, he took the risk to sell it and invest in a pharmacy.

*"I studied medicine for many years and I really wanted to return to this field. When I had some money, I wanted my own business in this field.... I was young and unafraid to take risks. I knew if I failed, I'd lose both businesses. But I like my speciality, and I perceived it wouldn't be that bad."*

J1 did not imagine that he would have the opportunity to return to his specialty and run his own business. As revealed by X1: *"J1 was thrilled when he heard the news.... I could tell he loved medicine so much, because he read current medical journals when he had time."*

**Case 2:** L2 had liked cooking since he was young and the receipt of snack-duck noodles was invented by him. As he proudly mentioned in the interview: *"I liked to cook tasty food especially when people enjoyed it."* As L2 admitted, he did not have skills other than cooking, but he felt a sense of

achievement when he saw increasing numbers of customers visit his store. L2 liked his catering business which prompted him to consider expanding it.

**Case 3:** D3's starting an online business was influenced by his habit of shopping online. He described: *"Most university students shopped online including me. The express company's trucks came to the campus three times a week."* D3 also enjoyed his initial online used book business. In view of this interest, he preferred to participate in an online business.

**Case 4:** After a few years' entrepreneurship experience, it became L4's hobby to keep busy in business. He was laughing at himself when he said: *"I was born to run, never stop working. But I enjoyed being like this."* This habitual behaviour nudged him to seek more business opportunities. He was proud when he got a good business result.

**Case 6:** Similar to J1 in case 1, Z6 was also interested in medical industries. Even though he earned good money from freight delivery, when he was told that a state-owned pharmaceutical station was for sale, he decided to purchase it. As he said in the interview: *"It was amazing that it was available to me... I didn't want to drive a truck for the rest of my life and I wanted something I enjoyed."*

In summary, the above cases illustrated that those entrepreneurs' personal interests were important motivations to engage in new businesses. These personal interests were in two forms: one was the interest in a specific industry and the other form was the entrepreneurship habit. These two factors are shown in Table 5-7.

**Table 5-7: The key factors of personal interests**

Key factors	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
<b>Personal interests</b>	√	√	√	√	×	√
- Interests in industries	√	√	×	√	×	√
- Entrepreneurship habit	√	√	√	√	×	√

Due to interests in industries, necessity entrepreneurs were attracted by the opportunities in the industries they were familiar with or interested in. Particularly for J1 from Case 1, the pursuit of operating a medically-related business was never out of his mind. Consequently, when he realised that the opportunity to operate a pharmacy business was presented to him, he left his current business and engaged in this medical industry. Cases like Cases 2, 4, and 6 also indicated the impact of these interests on their decision makings, and to some degree, these interests pushed them one step further on their entrepreneurial paths, just like L2's statement: "*You did a better job when you liked doing it.*"

The data also reflected that after years of running their own businesses, entrepreneurs were used to the entrepreneurial lifestyle, and they were satisfied with what they had done. Entrepreneurship then became a life style that entrepreneurs savoured. They then gained the habit of enjoying working for themselves and the sense of achievement from every success. "*Life is abundant and joyful*" (L4).

Thus, when necessity entrepreneurs were better off from the good performance of their businesses, their decision making relative to further entrepreneurial development was based on their choices rather than necessity. In this stage, besides considering the financial reasons, they were also influenced by their own personal interests. These discussions lead to the proposition below.

**Proposition 9:** Personal interests in industries and entrepreneurial activities encouraged necessity entrepreneurs to become involved in subsequent opportunity entrepreneurship.

### 5.3.5 Social status

It is interesting to discover that the willingness for higher a social status has a positive impact on participants' decisions to achieve higher success levels in their entrepreneurial careers. The majority of entrepreneurs in the cases stated that to achieve higher order aspirations for the betterment of society, being successful in business was the key. Many accolades were received through business success. However, it was learned in the study that in their initial entrepreneurial stages as necessity entrepreneurs, they did not perceive higher social standing because they were self-employed and involved in small and informal businesses. Moreover, family backgrounds also influenced their social standings. Most entrepreneurs in this study were from poor family and being poor did not receive much respects at that time. Consequently, only by achieving higher levels of business success could they have higher order of social status.

**Case 1:** J1's grocery business was good but he felt people just looked down on him because he was operating a small grocery. J1 said: *"Even though you earned good money, people still despised you, because you were running a small grocery."*

Contrary to the other small business owners, J1 had completed higher education. Accordingly, when he learned he had the chance to return to the medical field, he was elated.

*"I would have a higher social status if I opened a pharmacy. People would respect me because I knew medicine and worked in this field.... A higher social status helps to*

*expand guanxi (connections), and become acquainted with more people to help your future development.”*

As stated by W1, people in different occupations have different social status, some were respected and some were not. *“Being a doctor or a pharmacist gains more respect than being a grocer.... People need you and they have to establish good relationships with you.”* It was addressed by W1.

**Case 2:** L2 did not expect business growth at the early stage, but he knew that if you wanted people to admire you and respect you, you must have something that others could not achieve. Further, he was influenced by the local culture that a good reputation is significant for businesspeople. For this reason, most of them worked day and night to expand their businesses to earn better reputations. W2 stated: *“It is difficult to be a business operator. Once you succeed, people respect you so much, but if you fail, people pay no attention to you.”*

**Case 4:** Social status also played an important role for L4. In view of his philosophy, further business expansion was not for money only, but also for something else.

*“If you did well, you received more respect... having a high status, you could have access to a greater social network, not only for business, but also the network has an impact on your life”.*

L4's good friend B4 also stated in the interview:

*“Those in our generation like to have good reputations. We enjoy being respected, especially as businesspeople.... We work hard to improve our reputations and to improve ourselves... I think L4 also shares this opinion with me.”*

**Case 5:** X5 developed a favourable reputation from his previous clothing manufacturing business. He wished to uphold and improve his local reputation. He was also influenced by a local saying: *“Work hard, win through struggle, and honour ancestors.”* It was not only for his reputation, but also for his clan. X5 worked hard and expanded his business to aggrandise his social standing. It was further evidenced by X5’s employee L5 who said: *“X5 always mentioned the importance of a high status in social hierarchy.... People admire his achievement and many people want to work for him.”*

**Case 6:** Z6 did not perceive high status in being a truck driver. Few people knew he used to work in a state-owned company, which was a high-class job. N6 stated: *“Job discrimination was serious, Z6 transitioned from a favourable position to a low-class job. Even though driving a truck was lucrative, it carried low social status”*. He was sensitive to the discrimination from some of his customers, since they thought he was just an average driver and paid him no attention. When he learned he might have the opportunity to open a pharmacy, he decided to leave his freight business and return to the medical industry.

Based on the data displayed above, having a good social status has a twofold benefit. On one hand, it helped with business development. As stated by some participants, a good social position helped them enhance their *guanxi* network, which was deemed an important factor for business success. On the other hand, it helped with non-business dimensions, including providing a better familial image. Individuals received more respects via having good reputations. Overall, for either business-related or non-business related reasons, Aspirations to seek higher social standing became important reasons to pursue higher levels of business success. Consequently, another proposition is presented below.

**Proposition 10:** The willingness to achieve higher success levels in order to garner better social statuses encourages necessity entrepreneurs to be involved in subsequent opportunity entrepreneurship.

### **5.3.6 Summary of the motivations for subsequent opportunity entrepreneurship**

The reasons that entrepreneurs engaged in subsequent opportunity entrepreneurship differed from those when they began their initial businesses based on necessity. What set them apart from others was the willingness to face challenges and achieve high business success levels. Apparently, those entrepreneurs wanted better outcomes for themselves. Even though they all set up subsequent opportunity entrepreneurship, their motivations for starting subsequent businesses were many and varied. The data analysis has demonstrated five main reasons to do so, including income generation, entrepreneurial satisfaction, growth prospects, and personal interests and social status.

Increasing incomes and becoming wealthier were never far away from the minds of those entrepreneurs when they considered furthering their entrepreneurial careers. This motivation shifted from initial aspirations of just making a living to become economically prosperous. These income expectations therefore played major roles to motivate the involvement of furthering entrepreneurial activities. As to entrepreneurial satisfaction, the forced reasons to become involved in the initial entrepreneurship often worsen self-employers' entrepreneurial satisfaction and make self-employers reluctant to continue. However, entrepreneurs in this study earned satisfactory livelihoods through the self-employments which compensated the negative effects of necessity-based start-ups. Therefore, entrepreneurs preferred and were satisfied with continuing their entrepreneurial careers.

To achieve higher business success levels, growth seeking was an indispensable element influencing their decisions to pursue new ventures. There were dual motivations: the first was the self-ambition to build a business kingdom and the second was the influence from the self-employment social trend. In addition to mere pursuit of profit, the above data also revealed that personal interests also swayed the decision to embark on subsequent entrepreneurial opportunities. Personal interests revolved two types including interests in a specific industry and interests in venturing. Other non-profit related reasons



were desires for higher social statuses. This finding demonstrated motivations to achieve higher order aspirations for the betterment of society.

Overall, the lure to become involved in subsequent opportunity entrepreneurship was dictated by various reasons. Starting off to further the entrepreneurial career possessed different motivations compared with the initial necessity-based start-up. The willingness to face challenges and the aspirations of achieving higher level of success set apart those entrepreneurs from others.

## **5.4 Determinants of the transition from necessity-based start-up to the subsequent opportunity-based entrepreneurship**

***Research Question 3:** What are the factors that determine the shift from the necessity-based start-up to the subsequent opportunity-based entrepreneurship? How do these factors impact on the shift?*

The previous sections revealed entrepreneurs' motivations for the subsequent opportunity entrepreneurship. The major reason was the willingness to advance further in their entrepreneurial careers. Other issues that emerged were what key factors determined and facilitated transitions from initial necessity-based start-ups to follow-up ventures based on opportunity and how those factors facilitate this transition. Therefore, two main themes emerged including resources and opportunities. These themes and their sub-themes are analysed in the following sections.

### **5.4.1 Resources**

The data shows that participants gathered and combined needed resources to establish subsequent businesses. These resources included *guanxi*, entrepreneurial teams and set up capital. Firstly, it is interesting to note that a majority of participants deemed *guanxi* the most important resource for their businesses. A large portion of *guanxi* was accumulated by participants during their earlier businesses.

Secondly, entrepreneurial teams are found to be significant resources for setting up subsequent ventures. The main reason they worked with teams in subsequent businesses was due to their industry specific experience and prior founding experience. Lastly, set up capital also plays a key role. As stated by most participants, without adequate set-up capital, the subsequent business would be constrained and might cause failure of not only subsequent businesses but also existing ones. Details of these three types of resources are discussed in the following sections.

#### **5.4.1.1 *Guanxi***

Participants all admitted that *guanxi* was an inseparable part of doing business. Well established *guanxi* had a strong implication for the establishment of businesses. The collective cultural tradition and long historical legacy in China have made individuals believe that inter-personal relationship is one of the core values in their businesses (Yueh, 2007). Once *guanxi* is established, one can ask favours from each other continuously (Xin & Pearce 1996; Yeung & Tung 1996). Further, a set of *guanxi* relations makes up a *guanxi* network which is central to the Chinese culture (Hwang 2000; Buckley, et al. 2006). Data indicated that *guanxi* provided informal means to reduce uncertainty, facilitate business transactions, and establish trust between business partners. However, entrepreneurs possessed little *guanxi* when they set up their initial businesses, and the *guanxi* was developed and built up while running initial businesses. There were three main types of *guanxi* found in the data that facilitated the establishment of subsequent businesses: *guanxi* with governments, *guanxi* with suppliers, and *guanxi* with relatives and friends.

##### **5.4.1.1.1 Government**

Most participants stated that having good relationships with government officials facilitated business developments and eased processes to found new businesses. Once *guanxi* had been established, they could ask for favours from them frequently, and the key point was to retain good *guanxi* with civil servants. Data also indicated that a major portion of *guanxi* with governments was established during

entrepreneurs' initial businesses. This existing network helped entrepreneurs to gain access to more officials and established more *guanxi* with them. All cases except case 3 demonstrate that the positive impact of *guanxi* on subsequent business establishments. For case 3, D3's subsequent business was on-line retailer, at that time, official registration was not required.

**Case 1:** For J1's pharmacy, two licences from both health bureau and industrial and commercial bureau were required. J1's application for a licence with the health bureau was not approved until he asked a favour from a health bureau official who used to be his schoolmate. It was recalled by D1: *"J1 had no idea why the health bureau rejected his application, and was very worried until he asked a favour from his friend."* One of J1's friends was an officer in the local industrial and commercial bureau. He also helped J1 with his application, which reduced the waiting time of two months.

*"One major reason I didn't find a job in a local hospital after graduation was that my family didn't know any related officials.... [Since then] I've been expanding my network in government while doing business." - J1*

*"No one disagreed that having guanxi was the key to starting businesses. It is a key resource for business operators." - M1 (Assistant Manager).*

**Case 2:** L2 was awarded numerous 'green lights' from the government since he had good relationships with many civil servants. The land where his restaurant stood was state-owned. Due to his *guanxi* in the local government, he had the chance to rent it for thirty years. His *guanxi* in government ranged from the top official to lowest levels.

*"My restaurant was closed on New Year's Eve, not because of no customers, but because I prepared special dishes for government officials. Then, I delivered dishes to their homes as New Year gifts." - L2*

L2 was very good at retaining and establishing *guanxi* in government. Consequently he received numerous benefits from them. L2's financial manager K2 also heartily concurred with what L2 did, as she said: "If you want to get more, you need to invest more in *guanxi*."

**Case 4:** L4 had developed *guanxi* in related departments of governments since he was in the driving school business. He admitted that *guanxi* in governments eased his daily business process.

*"For some special festivals like the mid-autumn festival, I invited driving test examiners for dinner and gave them gifts like moon cakes, gift cards and other things.... Before my students' driving tests, we would call them for help to secure higher pass rates."*

In setting up the brick factory, even though the products were environmentally friendly, the manufacturing process caused pollution which might not have survived the evaluation process by the local environmental bureau. L4 had some friends in the local environmental bureau so he asked them for help. With the favours from them, he not only passed the evaluation but also received a large amount of funds to tackle the pollution issue. It was mentioned by L4's accountant T4 that: "You can't imagine how good L4 is at dealing with *guanxi*.... His *guanxi* with officials was wide and reached most departments."

**Case 5:** At the beginning stage of becoming involved in real-estate development, it was not possible to get land from governments without good *guanxi* with civil servants. X5 experienced that stage and he invested considerably to gain access to top officials.

*"You know the network was like a chain. When you knew a useful official, it meant you could become acquainted with more useful people because he introduced them to you.... Most of my evenings were spent on socialising with those civil servants and my daughter always complained that I only had dinner at home with her twice a month."*

X5's personal assistant W5 also shared the similar experience. He said: *"We didn't have other choices, because we were competing with state-owned companies. We had to make every case officer happy, and that's why we invested time and money on those guys."*

**Case 6:** When Z6 heard that the state-owned pharmaceutical station was on sale, he went to see his previous director who was the head of the pharmaceutical station. However, he no longer had the authority to make that decision. Nonetheless, he introduced Z6 to some civil servants in the local health bureau, who helped Z6 get the chance to negotiate. Z6 recalled:

*"I did not have good guanxi with them at the beginning. Officials from different departments played "Ping-Pong", i.e., the health bureau said it was the drug administration's responsibility to sign paper work and vice versa.... Finally I had the opportunity to talk to the top civil servant from the health bureau, and he signed it for me so that I could do it."*

#### **5.4.1.1.2 Suppliers**

Data showed that having good *guanxi* with suppliers played important roles. A majority of participants stated that in the process of setting up new businesses, the lack of suitable suppliers would have doomed the business. It also showed that having good networks with diverse industries created more opportunities to find potential suppliers for their new businesses. Details of the establishment and utilisation of *guanxi* by participants are outlined below.

**Case 1:** J1 had experienced the difficulty of setting up a business without good relationships with suppliers. He claimed the supplier was hard to deal with when he set up his pharmacy. At that time, there was only one formal supplier which was state-owned. Because of the state-owned background, they did not care about their business performance and were reluctant to serve clients. This situation made it very important to have good personal relationships with their employees. It was stated by J1:

*“I waited in line for three hours in the morning, and then when it was my turn, they told me it was lunch time and I had to come back in the afternoon. This was what they did.... When I fostered good relationships with them, I just called them for what I needed, and then I went and picked them up, took only a few minutes.”*

When talking about the supply system, J1’s supplier D1 had much to say and he was full of emotional thoughts. *“It is really like two different eras. Twenty years ago, pharmacies begged me to sell products to them, but now I’m begging them to buy my products.”*

**Case 2:** To find appropriate suppliers used to bother L2 in setting up the restaurant. Only thirty ducks were required in his previous snack shop per day, but for the new restaurant, he needed hundreds of ducks supplied on a regular daily basis. Introduced by other suppliers, he found a large duck farm.

*“I was so worried about that I could not get that many ducks for my new restaurant.... One pork supplier was my friend and he introduced me to a large duck farm, and strongly convinced them to be my supplier. They already had some big clients, so adding me to their lists was not easy.” – L2*

Additionally, one seafood supplier was a loyal customer of L4’s previous store and he then became the friend of W2 (General Manager). It was addressed by W2:

*“We were friends and when I learned he operated a seafood business, I discussed the supply with him and asked whether he could sell seafood to our new restaurant. He gladly accepted.... You know, offering seafood provided a higher margin to our restaurant.”*

**Case 3:** Without reaching an agreement with the clothing supplier, it was impossible for D3 to start his online business. D3 stated: *“The supplier was my uncle’s good friend. Due to this relationship, he*

*agreed to send me some clothes. I was not a big client, so few suppliers paid attention to me at that time.”*

**Case 4:** A large amount of sand, slag, and cement were essential for 4’s brick factory. However, the supply issue was not a concern for L4, because he knew many local businessmen who handled those lines. As he said during the interview: *“Many people were selling sand locally, and we’d known each other for years. They didn’t have any problem doing business with me.”* T4 (Accountant) was also very proud of her boss’ *guanxi* development. She described L4 as a ‘diplomat’. *“Only he could integrate those guanxi and push his business ideas to become realities.”*

**Case 6:** Z6’s previous working experience in a pharmaceutical station helped him establish a network in medical industries. Z6 had kept in touch with them. When he decided to open a pharmacy warehouse, he could easily gain access to suppliers. Z6 recalled: *“Especially when I needed some medicine from state-owned medicine companies, without knowing people inside, it would be time consuming.”*

#### **5.4.1.1.3 Relatives and friends**

Entrepreneurs did not work in isolation, and a majority of participants were grateful for supports from relatives and friends in early days. Relatives and friends had strong and positive influences on their entrepreneurial developments, not only materially but also spiritually. Having good relationships with friends and relatives helped most entrepreneurs in the establishment of subsequent businesses.

**Case 1:** J1 appreciated what his relatives and friends had done for him. He was not confident to set up his grocery store, even though it was a small business. His relatives supported him financially to set up the business before he requested it. In his follow-on business, his relatives and friends also lent him money.

*“I could not borrow money from banks because they only allow state-owned or large companies to do this.... Totally I earned about nine thousand but still needed more. I then borrowed from relatives and friends... I sold my grocery and received another sum.... These are the only ways I raised money to set up a new business”. – J1*

J1 was also touched by the spiritual support from his relatives and friends while preparing the new pharmacy. J1's cousin helped J1 to decorate his pharmacy on his own initiative. J1 said he felt good when they came to help, this encouraged J1 to work harder and become more confident.

**Case 2:** L2's impetus to open a fine restaurant originated with his friends. He earned a good amount of money from his previous snack shop. He wanted to spend it on a nice car but his friends strongly advised him to spend it on establishing a better restaurant. One of his friends also introduced a substantial livestock farm to him, which provided long-term and volume supply to L2. It was opined by G2: *“L2 was a trusted and honest man. His friends and relatives wanted to help him, and they all believed that L2 would become very successful one day. They were right.”*

**Case 3:** D3 set up his online book store alone but two friends joined him during a later stage. The trio also worked together to establish a subsequent business which was an online thermal undergarments store. It was claimed by D3: *“We had different specialties in doing this business... working with best friends encouraged and gave each of us more confidence to better operate this business.”*

**Case 5:** X5 was an honest and trustworthy business operator. He made many friends during the course of business. As his employee L5 related in the interview:

*“X5 had a very good reputation in business and people trusted him and liked to work with him on projects. He already had a large commercial network built while running the clothing manufacturing business.”*



The opportunity to become involved in a real-estate business was presented by his friends who used to work with him. As stated by W5 (Personal Assistant) during interviews: *“X5 was trustworthy and capable and he also had numerous connections in every corner.... When two of his friends got the idea to operate a real-estate business, he was invited.”*

**Case 6:** Z6's younger brother worked with him in the earlier freight delivery business. They also worked together to establish the pharmacy warehouse.

*“Of course I trusted my own brother more than others. I felt totally confident when he was in charge of important matters such as money.... He was also good at socialising and he really gave me a hand.”*

Z6's friends in medical industries played important roles related to the application process. Without friends' assistance from initially learning of the opportunity through exploiting the connections process to secure licences, moving forward would have been impossible.

#### **5.4.1.1.4 Summary**

This section demonstrates that participants all considered *guanxi* the vital resource to do business in China. Without good *guanxi*, achieving a high level of business success would have become extremely hard. This importance derived from the informal ways to reduce uncertainty and increase the effectiveness of the business process. Without operating permits approved by civil servants, the entrepreneurs could not have operated legally so that favourable relationships via *guanxi* in government were vital. Those benefits included jumping business registration waiting list queues which normally consumed three months, minimising the relevant departmental inspections, and receiving grants, etc.

Having good *guanxi* with suppliers was also essential for the subsequent opportunity entrepreneurship. Evidence showed that without reliable suppliers, the new ventures would end up failing. Entrepreneurs in this study were shown to expand their networks with diverse industries during the operation of their initial businesses. This *guanxi* allowed them to gain access to more potential suppliers for their new businesses.

Good *guanxi* with relatives and friends also facilitated entrepreneurs to progress by involvement in subsequent entrepreneurship. This *guanxi* allowed entrepreneurs to receive more support. Specifically, a majority of entrepreneurs received financial support from relatives and friends in the venturing phase. Moreover, good *guanxi* with friends and relatives aided entrepreneurs to expand their *guanxi* networks. That is, more useful connections were introduced which benefited entrepreneurs. The other support from friends and relatives was spiritual support, which encouraged entrepreneurs to achieve goals.

However, establishment and exploitation of *guanxi* was not born with entrepreneurs. The data illustrated this aplomb was developed during commercial operations. Entrepreneurs' early perceptions via business operations, that connection were so essential led to deliberately looked for more useful connections later. As a result, initial necessity-based businesses played roles as platforms for entrepreneurs to gain access and establish expanded business networks, which led entrepreneurs to access of more valuable resources in later stages. These discussions therefore lead to the proposition shown below.

**Proposition 11:** Initial necessity-based businesses helped entrepreneurs to establish more *guanxi* with governments, suppliers, friends, and relatives, which facilitated the transition from necessity entrepreneurship to subsequent opportunity entrepreneurship.

#### **5.4.1.2 Entrepreneurial teams**

A majority of participants started initial businesses on their own, but when they established subsequent businesses, they worked with teams. It was interesting to learn that team members were known by participants in their initial businesses in most cases. Some team members worked with these entrepreneurs in their initial businesses as employees or business partners and some were friends who entrepreneurs made during their first businesses. The main reason they worked with teams in subsequent businesses was due to their industry specific experience and prior founding experience.

##### **5.4.1.2.1 Industry specific experience**

Industry specific experience is also recognised as an important factor in setting up follow-on businesses. The data shows that some entrepreneurs possessed industry specific experience before initiating subsequent businesses. Some participants partially had experience, and some did not have experience at all, but they looked for those who had related experience. Most entrepreneurs stated that they did not work alone in subsequent businesses and they had others working with them. Those people either worked in their initial businesses or from outside.

**Case 1:** J1's industry specific experience was limited, so he found others to work with him to set up the pharmacy.

*“A pharmacy was required to provide both western medicines and Chinese traditional medicines. But I did not learn Chinese traditional medicine.... L1 had been doing Chinese traditional medicines for about twenty years and he was kind of an expert. I invited him to work in my pharmacy, and he agreed.... I became acquainted with L1 when I operated my grocery because he always visited my store.”*

J1 met L1 in his grocery store, as they were both interested in medicine, they became friends. L1's knowledge of Chinese traditional medicines helped J1 successfully set up his pharmacy. Without him on the team, it would have been difficult.

**Case 2:** Instead of setting up the new restaurant with a business partner, L2 preferred full ownership. However, he was not alone to set up this business. His previous employee W2 worked with him. W2 had been working for L2 since the snack shop days. She had experience and knowledge of the catering business. It was mentioned by L2: *"W2 was experienced in serving customers, so she trained new recruited wait staff.... Without her, it wouldn't have been easy."* When the new restaurant opened, W2 became the restaurant manager. G2 also had been working for L2 since he started the business. He was in charge of the kitchen team. As L2 said: *"Customers are happy to come because G2's cooking is excellent... He really gave me a big hand at the beginning."*

**Case 3:** D3 and W3 had been working together in their previous online book store. Both of them possessed good online business knowledge. When D3 decided to open an online store, he invited W3 to join him. As D3 said *"We had worked together very well. W3's specialty was web design... I was good at database."* However, neither of them had knowledge of the clothing industry.

*"We made a mistake in purchasing. We didn't have knowledge of clothing materials initially. What we wanted was made of 100 percent cotton, but suppliers gave us 70 percent cotton undergarments." - W3*

Once aware of that weakness, they then started to develop relevant knowledge. Overall, D3 and W3 did well, and the business became very profitable in the second year.

**Case 5:** X5 did not have knowledge of real-estate development, but two of his friends were from construction companies, and were senior project managers.

*“...they were elites in this industry. I could say without them, it would have been an impossible mission.... From project design to later sales stages, they were in control of the whole process.” - X5*

In terms of financial sectors, L5 was in charged, she had been working for X5 as a financial manager in the clothing manufacturing factory for a long time.

**Case 6:** Z6's industrial knowledge was from his previous job when he worked for the state-owned pharmaceutical station. His experience allowed him to perceive the opportunity from this industry. He stated: *“Many people were interested in taking over the pharmaceutical station, but they were just interested in the location. They didn't know much about this industry.”*

#### **5.4.1.2.2 Prior founding experience**

Data showed that on the entrepreneurial teams, all entrepreneur participants possessed prior founding experience. However, only three cases (Cases 1, 4, and 5) showed that their team members had prior founding experience. A majority of participants stated that their entrepreneurial teams' prior founding experience contributed to the establishment of subsequent businesses. Primary reasons were that prior entrepreneurial experiences helped the development of experientially-acquired skills and the establishment of *guanxi*, which were critical in the subsequent venturing.

**Case 1:** Three people worked with J1 to set up the pharmacy, one was W2. Before W2 jointed J1, she set up a restaurant with her dad. She was in charge of accounting and finance. She gave J1 much

advice on store decoration and bookkeeping. It was recalled by J1 that: *“Money issues, store layout, etc., were overseen by her, I was busy with paper work and purchasing concerns.”*

**Case 4:** L4’s business partners were all businesspeople. Before they worked together, they all had their own businesses. L4 was proud of having this team, as he said: *“We were all born in poverty, and we all started businesses from nothing.... They had done more business than I and were more sensitive of business opportunities.”* The possession of more entrepreneurship experience facilitated establishing a brick factory. L4’s accountant T4 also addressed *“L4 and his business partners were all experienced in setting up businesses. They could access to different resources to facilitate the establishment of business.”*

**Case 5:** X5’s team included his business partners and his previous employees. X5 became acquainted with these business partners during his previous business and they became friends. All his business partners had entrepreneurship experience which was considered as a determinant of success by X5. As he stated: *“We all had experienced hard time when we were young, and had to work more than twelve hours a day.... The previous entrepreneurship experience helped us face more challenges and eliminate worries.”* It was stated by L5 (X5’s financial manager): *“X5’s and his businesses partners had rich experience in businesses. They had different specialities which were all essential business abilities.”*

#### **5.4.1.2.3 Summary**

In the initial necessity-based entrepreneurship, entrepreneurs founded their businesses alone. However, in subsequent businesses based on opportunities, they worked in teams. Team members were primarily two types, their previous employees and new business partners. Important roles of entrepreneurial teams revolved around team members’ industry specific experiences and prior founding experiences, which compensated for entrepreneurs’ limited skills and experience.

Entrepreneurial teams therefore helped with skills development and with access to more business networks, which enhanced knowledge available to whole teams and increased probability of discovering potential entrepreneurial opportunities. These discussions therefore lead to the proposition shown below.

**Proposition 12:** More industry specific experience and prior founding experience on the entrepreneurial teams established by necessity entrepreneurs facilitate the transition from necessity entrepreneurship to the subsequent opportunity entrepreneurship.

#### **5.4.1.3 Set up capital**

Obtaining sufficient financial resources was a key concern of entrepreneurs when they desired to establish subsequent businesses. Data indicated that a majority of entrepreneurs started their initial businesses from almost nothing, they accumulated funds in initial businesses, and this capital played vital roles because it was the basic source of financial capital for subsequent ventures. However, all cases demonstrated these amounts were insufficient for their follow-up businesses. Entrepreneurs also received external financial support via borrowing money from friends and relatives, loans from banks, and capital from business partners.

**Case 1:** J1's main seed capital was from his previous grocery business income. He addressed: *"I earned about two thousand from my grocery store.... The money was good, but still not enough."* He was grateful that his relatives kindly lent him some money. It was claimed by his employee X1: *"J1 was an honest person, he was talented, and his relatives believed that he could perform well in a pharmacy .... He deserved their assistances."* J1 also regarded the starting capital as *"the indispensable link between his dreams and the reality of business. Without the receipt of adequate money, I might have lost this opportunity."*

**Case 2:** L2's "first bucket of gold" was from his snack shop which was extremely profitable. He had earned about twenty thousand Yuan between 1992 and 1996 [this amount could afford a house in 1996]. Yet, it was insufficient to set up an upscale restaurant. He tried to get a loan from local banks, but his application was rejected.

*"They told me they could not do it since I was just a small business owner. You know I was very disappointed.... When my business grew, they turned to me and introduced me to many financial products. I didn't even look at those. This was what they did. When you were in trouble, they ran away, but when you prospered, they tried every means to approach you." - L2*

However, L2's friends were very supportive at that stage, and many of them lent him money for setting up his business. Some even expressed interests in joining him, but he declined. As he said: *"Sometimes I just didn't know how to refuse. They were good friends, but I wanted to have full ownership of my restaurant."*

**Case 3:** D3 struggled with finances. He had minimal savings earned from his previous online book store. He considered buying from suppliers on credit, but they refused because D3 had not started yet, and they could not trust him. D3's partner and friend W3 contributed fifty thousand, and the rest he borrowed from his relatives. It was stated by D3:

*"I had a big headache in this area. I wasn't from a wealthy family, my mum barely supported herself.... I couldn't imagine what would occur without this seed capital.... Thanks to W3's partnering with me, I wasn't alone. He brought fifty thousand in, and we worked diligently to set it up."*



**Case 4:** L4 made good money from his driving school, he was well-off but he was quite restrained in lavish personal indulgences, and lived a simple life. The majority of the set up capital was from his savings.

**Case 6:** Z6 and his brother C6 earned hundreds of thousands by delivering freight. To set up the pharmacy, he and his brother each brought one hundred thousand into this business. *“The most expensive part is the inventory, especially the luxurious traditional medicines such as ginseng, deer antlers, and bird’s nests.”* (C6) The cost was beyond their expectations. They also borrowed from friends. They had good relationships with suppliers, and bought from suppliers on credit initially.

From the above evidence of the set up capital, it was understood that insufficient financial resources was another problem which troubled entrepreneurs. Without adequate capital, business opportunities might fizzle. Individuals were able to start necessity-based entrepreneurship because necessity-based businesses did not cost much. However, the subsequent opportunity-based entrepreneurship required large amounts of seed capital. The data illustrated that large amounts of establishment capital were from the income of previous businesses and the rest was mainly borrowed from friends and relatives. All of these entrepreneurs shared difficulties gaining access to bank loans. As stated by them, only state-owned sectors or large corporations were allowed to do so. This added extra financial hurdles in founding subsequent businesses. The above discussions therefore lead to the proposition presented below.

**Proposition 13:** A majority of set up capital for the subsequent opportunity entrepreneurship was accumulated from initial necessity-based businesses, which facilitate the transition from necessity entrepreneurship to the subsequent opportunity entrepreneurship.

#### **5.4.1.4 Summary of resources**

Even though entrepreneurs differed in gathering, pooling, and utilising available resources, it was found that all their necessity-based businesses played vital roles for entrepreneurs to accumulate resources. For necessity-based entrepreneurs at the beginning stage of their entrepreneurial careers, their existing resources were limited, but the limited resources did not constrain the establishment of necessity-based entrepreneurship. Evidences also demonstrated that for subsequent opportunity-entrepreneurship, the businesses were usually larger and more formal compared with previous ones, and the business establishment processes were more complicated, and appreciable resources were required. Therefore, the access to available and valuable resources became vital in this phase.

Three main resources were found essential for the follow-up opportunity entrepreneurship. As discussed above, *guanxi* were treated as the most important resources of doing Chinese business. Having good *guanxi* with governments, suppliers, friends, and relatives facilitated entrepreneurial career developments. The other resources discussed were human resources, specifically, entrepreneurial teams were emphasised. Entrepreneurial teams possessed more industry specific experiences and entrepreneurship experience, which counteracted insufficient skills and experience that entrepreneurs had. Additionally, this study revealed that the importance of financial resources in beginning subsequent opportunity-based businesses. However, it was interesting to reveal that gaining access to bank loans was almost impossible for those entrepreneurs. Thus, their seed capitals were mainly from initial business incomes and loans from friends and relatives.

#### **5.4.2 Opportunity**

Entrepreneurs either deliberately look for opportunities or discover opportunities accidentally. The discovery of opportunity is deemed a critical factor in pre venture formation in particular for those entrepreneurs who started from necessity-based self-employment. The data illustrated that there were

five main types of opportunities for subsequent opportunity-based ventures: the opportunities from new products, new market demands, new inputs, new management methods, and new regulations.

#### **5.4.2.1 New products**

New products were discovered by entrepreneurs during the operation of initial businesses. Opportunities to offer new products and services provided capabilities to probe new markets. Data also showed that their new products were mainly in the form of offering new products, upgrades, and improving existing ones. J1 perceived opportunities from poor services and slow updates of medicines in state-owned pharmacies. J2's duck noodles were welcomed by customers, which allowed him to consider founding an upscale restaurant. D3's concept of new shopping experience and services prompted him to exploit e-business. Air-added foam brick was totally unknown in L4's local market, which encouraged him to explore. X5 also offered a new concept in real-estate development. As to Z6's pharmacy warehouse, there were few at that time. Details are discussed within cases below.

**Case 1:** J1 realised that he could provide better products and services than state-owned pharmacies if he could successfully open his own store. Before J1 started his private pharmacy, he found that those state-owned pharmacies updated medicines slowly. When new antibiotics were introduced to hospitals, and were prescribed by physicians, patients could purchase them only from hospitals, and they could not find them in pharmacies until several months past. J1 also noted that state-owned pharmacies' medicines were high in price and rarely discounted. J1 recalled:

*“State-owned pharmacies were rigid and reluctant to change.... Lots of patients complained that they could not get what they needed and had to get it from hospitals. However, these complaints did not make them change at all.”*

J1 also felt that if he had his own pharmacy, he would provide better services. He thought operating hours should extend to late evening. State-owned pharmacies closed at five o'clock. He planned to

operate in the evening so that people could buy medicines after hours. It is stated by M1 (Assistant Manager) *“You should do it differently and provide products and services that others obviously don’t have. J1 did this, and he did it well.”*

**Case 2:** L2’s local snacks were well-known but most people did not know the name of his shop. This specialty allowed L2 to consider setting up a better restaurant which offered duck noodles as the signature dish. As he joked in the interview: *“It was like in the 1990s, most people had heard of Michael Jordan before they had heard of the NBA.”* The duck noodles product not only helped L2 survive in his necessity start up stage but also enabled thriving in follow-up stages. *“No one realised that duck noodles would become so well-received, it was really a brilliant business”* stated K2.

**Case 3:** Thermal undergarment products were found everywhere, but exclusive undergarment online stores were few. Having discovered this niche, D3 was encouraged to pursue the opportunity. Instead of offering new products, D3’s new business provided new services and new shopping experiences. He stated: *“It was not a new product at all, but provided new shopping experiences for customers, especially for the younger generation.”* New products were introduced at a later stage, especially thin, light but warm weaves. It was claimed by H3 *“Lightweights were widely accepted by women, because they wanted to look slim without sacrificing warmth in winter.”*

**Case 4:** The advantages of air-added foam bricks fascinated L4 from the moment he became aware of it. He proudly talked about it in the interview:

*“I had some knowledge of construction materials, but I never see this brick before. I was surprised that this brick was light to float in water but the structure was as stable as normal brick. It was very environmental friendly, which maintained in-door temperatures very well.... One very important point is the cost was lower than normal brick.”*

L4 was also surprised that this brick had been produced in several other provinces, but he rarely this product in his local region. He believed this new product would bring him fortune. After visiting several plants in other provinces, L4 decided to offer this product in his province. It was recalled B4 (L4's friend):

*“He was excited when he heard of this brick. He asked me to visit and survey a plant with him. This was his personality. Whatever he wanted to do, he couldn't wait until the next morning.”*

**Case 5:** X5 invested in the real-estate industry before it was booming. In his locality, there were no residential and commercial mix plazas. He was a pioneer in this field.

*“We saw several residential and commercial mix models in city centres, but in my region, we were the first to provide this.... The ground floors were stores and upstairs were apartments. We sold a concept- convenience.” - X5*

X5 was not familiar with this industry before he started, but he was touched by the business plan which made him very confident of its future. *“When his friends proposed this idea, X5 was thrilled and he thought this was a great opportunity.... Of course, it turned out to be very successful.” (W5, Personal Assistant).*

**Case 6:** Z6's initial plan was to buy the state-owned pharmaceutical station and registered it under his name. Encouraged by this opportunity, he strived to pursue it. However, this approach was not allowed due to the institutional issue. He stated: *“The pharmaceutical station had many privileges in purchasing medicine. Many medicines were supplied by this station only.”* He then rented the place and registered as a private pharmacy warehouse, also a scarce resource at the time. The service he provided was a mix of retail and wholesale, a new business model at that time. Z6's store manager N6, who had observed Z6's business at that time claimed:

*“Z6 broke the rigid business model of pharmacies. At that time, all pharmacies were state-owned and only played the role of retailers. Even if you bought in bulk, you didn’t get a cheaper price.”*

Z6’s business model was welcomed by most customers, especially the big customers like restaurants and factories. This service proved to be a good one.

In summary, new products were identified by entrepreneurs prior to founding new ventures. Specifically, they were identified while operating initial necessity-based businesses. The emergence of new products therefore allowed entrepreneurs to introduce them to less than saturated markets, which in other words created new entrepreneurial opportunities. Entrepreneurs therefore reacted to these opportunities by exploiting them via involving in follow-up ventures. This leads to the proposition shown below.

**Proposition 14:** Opportunities discovered from new products by necessity entrepreneurs facilitate the transition from necessity entrepreneurship to the subsequent opportunity entrepreneurship.

#### **5.4.2.2 New market demand**

All participants identified market demands before they embarked on follow-up businesses. Data also indicated that market demands change over time. Changes in environments, culture, and consumers’ preferences provided new niches. A majority of entrepreneur participants perceived gaps in existing markets during their initial businesses, which provided new entrepreneurial opportunities. They then exploited the opportunities by filling the gaps. Details of identifying market demand opportunities are discussed within cases below.

**Case 1:** J1 thought there was a market demand for private pharmacies before he took this opportunity. However, J1 did not expect that people did not accept privately-owned pharmacies initially. This was due to mistrust of individually-owned pharmacies only because they were usually state-owned.

*“Before customers came into my store, they asked whether it was privately or state-owned. When they learned it was private, they just left. They were deeply influenced by that only state-owned medicine stores were trusted.” - J1*

J1 experienced public discrimination and biases against private industries. The situation changed thereafter, and his pharmacy became accepted and then welcome. People’s understanding of private pharmacies shifted in late 1980s and early 1990s.

*“Actually, they then preferred my store... I offered better services, lower prices and more diversity.... Then I started to perceive the increasing demand, I started to consider opening another store.” - J1*

When a new farmers market was established locally, J1 opened the second pharmacy beside it. It is stated by W1 that *“J1’s philosophy is where the market is where the people are. This was why he chose that place.”* His second pharmacy was also very successful, more and more customers started to buy medicines from his stores only.

**Case 2:** Customers consistently liked L2’s cooking, but complained frequently that L2’s shop was too small. They asked L2 to open an upscale restaurant with a good environment, and then they could bring friends for dinner. As described by the general manager W2: *“Many customers came from other cities for duck noodles, and often could only get take-away, because the shop was full of customers. They all asked L2 to expand it.”* Customers’ requirements were L2’s primary prompt to consider expansion which not only satisfied customers’ desires but also thrust L2 into a new entrepreneurial stage.

**Case 3:** When D3 became interested in the business of thermal undergarments, he conducted considerable research on the field. He stated:

*“I found a great deal of information and the sales were incredible.... E-commerce was in its infancy and I was very confident that it was the trend... I did not see many exclusive thermal undergarment stores online and I decided to try it.”*

**Case 4:** L4 believed that air-added foam bricks would be well received by local markets. He was not sure about the market initially, but was quite confident of the future. L4 addressed: *“Even though it was uncertain, I knew that once I marketed this product, people would like it. It carried lots of advantages with lower prices.”*

His view was then supported by the markets, and when local governments encouraged using environmentally- friendly and energy- saving materials, he got numerous clients.

**Case 5:** Buying properties as investments became popular in the late 1990s, especially when store rentals rocketed. It was evidenced by L5 that: *“More people became self-employed, so there was a high demand for shops.”* Further, these facilities were located in different business clusters. There was no large shopping centre locally. X5’s plan was to provide a large business centre and draw more investors. He believed that this business centre would improve customers’ shopping experiences.

**Case 6:** Z6 had been optimistic about the medical industry since he worked in a pharmaceutical station. He said:

*“Since the middle of the 1990s, more people have come to live and work here. There has been at least a 10 percent increase. When I looked at the market, it was booming.... It*



*was unlike before people only bought medicine when sick. The concepts changed, so that they consumed more health products rather than pills.”*

Z6's idea was proved the market. On the one hand, the total population of his region rocketed. On the other hand, consumers started to invest more on health by purchasing health products which were more profitable products in his shop.

Based on the data illustrated above, it was found that market demand changes created gaps in existing markets. Market demand changes were of two types: one was the shift of customers' preferences and the other was total market size increases. By identifying these gaps, entrepreneurs saw opportunities in unexploited markets.

Overall, business experiences from previous entrepreneurship enhanced development of abilities to perceive entrepreneurial opportunities from unexploited markets. Most participants admitted that access to business environments in necessity start-ups was important in the development of these abilities, especially the sensitivity of the markets. Keeping alert and abreast of market changes was a rule of doing business, because as J1 stated *“The market was like a two-sided coin. Every change could either result a positive or a negative impact on your business.”* Entrepreneurs' abilities to sense lucrative opportunities from facets of markets differed, regardless of whether they would be successful or not. Once they were deemed potentially profitable chances, entrepreneurs grabbed them. This leads to the proposition shown below.

**Proposition 15:** Opportunities discovered from new market demands by necessity entrepreneurs facilitates the transition from necessity entrepreneurship to the subsequent opportunity entrepreneurship.

#### 5.4.2.3 New inputs

Data indicated that better access to more diverse ranges of inputs contributed to entrepreneur participants' pursuits of opportunities. Participants' new sources of inputs included new suppliers, new raw materials, and new business platforms. Cases 1, 2, and 3 demonstrated the importance of suppliers to the setting up process and Case 3 also illustrated that a new business platform/model created niches for entrepreneurs, which offered opportunities. The important role of new raw materials as inputs in manufacturing sectors was demonstrated in Case 4. However, the evidence of inputs on opportunity discovery was not found in Case 5 and 6.

**Case 1:** J1's grocery supplier could get some imported medicines from Hong Kong. He also introduced other medicine suppliers who could provide more kinds of medicines. At that time, medicines from Hong Kong, Singapore, and Malaysia were popular. However, in State-owned pharmacies, prices were very high and there were very limited choices. J1 thought there would be a big market demand for those imported medicines, so J1 kept in touch with those potential suppliers.

For traditional Chinese medicine-herbs, J1 knew a business man who purchased herbs from north-western provinces and sold to some local industries. J1 was very surprised at his prices, almost half price compared to herbs sold in state-owned pharmacies. J1 sensed a large profit potential. He felt that the future business with that supplier would make his pharmacy more profitable. It was claimed by L1 (*J1's previous employee*): *J1 was very resourceful. Many herbs didn't grow locally, could only be seen in books, but could be purchased elsewhere by him.*”

**Case 2:** To open a large restaurant, substantially more ducks were required. This issue really bothered L2 at the beginning. However, the introduction to a volume supplier by his friend resolved that problem. After that, another problem emerged. His new restaurant needed a more diverse menu. With the help of another friend, he found a seafood dealer who could supply seafood regularly. L2 then

decided to offer gourmet seafood entrees in his new restaurant, which could be more profitable for this restaurant.

**Case 3:** The introduction of the first undergarments supplier by D3's uncle made D3's online business idea become more feasible. D3 recalled that: *"We did lots of research and found out online undergarments retailers were few, but finding the first fitting supplier was the bottleneck in starting the business."*

Moreover, D3's business platform was based online which differed from the traditional business mode and provided a niche. As D3's business partner stated: *"We couldn't compete with conventional clothing stores. They were seen everywhere but online."* The online sector allowed individuals to visit D3's store by simply connecting to the internet. A variety of products and details were displayed on his website, it was described by Q3: *"Operating this way really helped us, saved money, and time"*.

**Case 4:** L4's hometown was rich in sand, which was essential for air-added foam brick manufacturing. This richness of inputs reduced raw materials costs which increased the profit margin. It was stated by L4:

*"Thousands of tons of river sand were extracted daily locally, and the price was lower than in many inland provinces.... Another key raw material was slag, and there were so many power plants which could provide it at extremely low prices."*

The easy access to rich inputs raised the feasibility to explore the industry which also increased L4's investment interests. *"L4 was lucky, he was born in a place which was full of raw materials he needed for the business."* (T4, Accountant).

**Case 5:** In order to get governmental approval of the project, a high quality standard was required. To secure the first real-estate project, X5 chose the proposal from the best local construction company even though the estimate was 20 percent higher than other bids.

*“At that time, Taiwan had suffered from several serious earthquakes. Undoubtedly, we were influenced as well. The seismic design concept became the most important section of the building project evaluation.... Our buildings had an average of six floors, but the foundation frame structure we used was designed for buildings more than ten floors high. We also used numerous innovative designs. We wanted to guarantee building quality and secure project approvals.” - X5*

Overall, finding new inputs helped entrepreneurs to see opportunities that others could not. The study had revealed three main types of inputs discovered by entrepreneurs to create new business opportunities, including new suppliers, new raw materials, and new business platforms. New suppliers were shown to be extremely important for entrepreneurs in retail and catering businesses. Evidence strongly indicated that having good business ideas needed support by suitable suppliers because new and unique suppliers enabled entrepreneurs to exploit their business ideas and therefore revealed opportunities. Similarly, for manufacturing industries such as the brick factory that L4 had, finding easy access to new raw materials finally nudged him upwards to a more advanced stage of opportunity exploitation. As to new business platforms, new platform introduction facilitated the Case 4 entrepreneur to support his services and differentiated the business from others. These discussions therefore lead to the following proposition.

**Proposition 16:** Opportunities discovered from new inputs by necessity entrepreneurs facilitate the transition from necessity entrepreneurship to the subsequent opportunity entrepreneurship.

#### 5.4.2.4 New management

Opportunities also emerged from the discovery of new management techniques. Data demonstrated that entrepreneurs identified drawbacks of their production processes and organisational methods in their previous business sectors or familiar business sectors. Based on their experiences, new management methods were discovered, which encouraged them to apply them to future businesses. Entrepreneurs in Cases 1 and 6 perceived poor management in state-owned medical industries. They believed that they could devise better management practices to triumph over state-owned enterprises. With this in mind, they eventually became involved in the medical industry. Case 2 showed that new management skills were acquired based on the discovery of management weaknesses in previous businesses, which also contributed to perceptions of new opportunities.

**Case 1:** J1 gleaned considerable experience by visiting state-owned pharmacies. Their employees were unfriendly and extremely impatient since they did not care about the businesses. State-owned pharmacy employees had no incentives to act otherwise. This experience always reminded J1 that when he opened a pharmacy he would not allow these attitudes. X1 mentioned: *“J1 always reminded us to smile when waiting on customers. You didn’t see that in state-owned pharmacies.”*

By identifying state-owned pharmacy management drawbacks, J1 also wanted to introduce a new management practice in his new store, which would encourage employees to work harder because their performances would be pegged with their incomes. This procedure paid employees more and inspired them, as W1 stated: *“Although we worked hard, we earned more than counterparts.”* Details of this innovative practice were explained by M1: *“Our staff’s incomes were mainly based on sales and gross profit. One of the very good benefits was that they became very enthusiastic to serve customers and provided more solutions for them.”*

**Case 2:** L2's knowledge of restaurant management skills were mainly learned from his previous snack shop. His experience consistently reminded him to focus more on time management. He stated: *"Every minute is valuable when busy. We need a vision of what to do in advance."* L2 also discovered the importance of managing both the kitchen and service teams. When he decided to open a restaurant, he recruited employees and trained the kitchen team, and the service team was overseen by W2.

**Case 6:** Z6 was aware that bad management was a cause of the failure of the state-owned pharmaceutical station. He said:

*"You'd never believe how they worked. Their primary activities were reading newspapers and drinking tea. No one cared about work.... Customer services were supposed to have three people, but usually only one was available. They took turns... the pharmaceutical station was a monopolistic industry, it was almost impossible to close, but they made it happen."*

Z6 believed once he was in charge, this situation would not continue and it would be a very good business platform. There was no reason to lose money. After Z6 took over the pharmaceutical station, he divided his people into two groups. One group people handled retails and the other group people were dealt with wholesale. Customers were satisfied with their services. It was stated by C6 that: *"Many pharmacy retailers have been our clients for over a decade. They were still happy with our services."*

In summary, only half of the cases demonstrated that there was a positive relationship between opportunity discoveries and new management skills. However, regardless of the frequency of this theme, new management skills helped some specific entrepreneurs in finding opportunities. Specifically, Cases 1 and 6 both observed vital disadvantages in state-owned business management. In this respect, they believed offering similar products with good management would disclose state-

owned sector failings. Clearly, entrepreneurial opportunities were perceived in these dimensions. Therefore the proposition is demonstrated below.

**Proposition 17:** Opportunities discovered from new management by necessity entrepreneurs facilitate the transition from necessity entrepreneurship to the subsequent opportunity entrepreneurship.

#### 5.4.2.5 New regulation

The research indicated that favourable regulations provided numerous business opportunities and a majority of entrepreneur participants benefited from emergent opportunities. During the period from the late 1980s to the late 1990s when the Chinese economy gradually reformed from being a planned economy to a market economy, incentives for private enterprises pushed participants to advance in their entrepreneurial careers.

Five entrepreneurs from Cases 1, 2, 4, 5, and 6 were setting up subsequent businesses in this period (1980s to 1990s). Cases 1 and 6 illustrated that subsequent entrepreneurial opportunities emerged from the deregulations of private sectors and the down-sizing of state-owned corporations that allowed entrepreneurs to delve in the medical industry which was previously a state monopoly. Cases 2, 3, and 5 illustrated that relaxed and favourable regulations increased the feasibility of their entries. Details are presented in the following sections within cases.

**Case 1:** J1 did not believe he could open a pharmacy until he heard of a new regulation that the medical industry was opening the door to privates in the late 1980s. He would never forget that moment: *“I was astonished but thrilled. It was like a pipe dream before, but it became a reality.”* It was a milestone for J1’s entrepreneurial career since he could return to his own field. His previous employee L1 stated: *“He studied medicine and he loved it. He kept reading medical journal.... I was so happy to see that he had this opportunity.”*

**Case 2:** L2 benefited from a new regulation of ‘collective land’ when he had the idea to open the restaurant. The new regulation allowed individuals to rent “collective land” from local governments. It was recalled by G2: *“Before that time, all collective lands were fenced and forbidden to trade. The new regulation was a good thing for people and businesses.”* The regulation was issued a few months prior to L2’s decision of establish a new restaurant. He then had the chance to rent a collective land lot which was in front of his initial snack shop. L2 recalled:

*I had been interested in that land for a long time. When I was informed of this new regulation, I expressed my interest to local governments.... I eventually rented it for 30 years, and built my restaurant on it.*

**Case 3:** The government’s incentives for university students’ venturing stimulated D3’s enthusiasm to go this route. He was assisted by the university which offered many entrepreneurship seminars. D3 stated during the conversation: *“It didn’t bring material help, but I was really motivated by the seminars. I felt like they knew me, and they knew what I wanted in future.”* Additionally, as to web design, he received much advice from his previous e-commerce lecturer. One of his best friends H3 said that: *“We had a close relationship with the e-commerce lecturer. He was a good mentor. I think he guided D3 in the right direction, he was very nice and helpful.”*

**Case 5:** Before the housing market exploded, several favourable real-estate development regulations went into effect. X5 was a beneficiary of those regulations.

*“Governments were more supportive of real-estate developments than now.... You know, banks used to lend to state-owned companies only, but monetary policies were loose when I started. Our loans were written with low interest and got approved very soon.... Our capital chain never broke, because local banks were supportive.”*



There were also preferential tax regulations as the financial manager L5 asserted: *“Our projects also played a role to improve the local community, which was strongly supported by local governments. We benefited from tax concessions, especially from the local tax bureau.”*

**Case 6:** The pharmaceutical station where Z6 used to work was forced to shut due to regulation requiring down-sizing state-owned sectors, which offered Z6 the opportunity to take over the place. He claimed that there were three turning points in his entrepreneurial career and this was the first and most significant one.

*“The reputation of this pharmaceutical station was totally destroyed, but the location was excellent and most local people knew it. When it closed, I began to negotiate with the local health bureau.” - Z6*

In summary, it was interesting to see that without entrepreneurship-favourable regulation, many entrepreneurs’ ambitions would not have been launched. It was revealed that a majority of entrepreneurs involved in the subsequent opportunity entrepreneurship between the late 1980s and 1990s, which was a time that private businesses were encouraged. One important aspect was because the favourable regulations and policies allowed entrepreneurs to explore some industries that were previously state-owned only. Also, the new regulations further stated private sector deregulation and the importance of private asset protection. These not only allowed entrepreneurs to see opportunities but also encouraged them to do so. Evidence demonstrated that by seizing opportunities created by favourable regulations helped them to step out of necessity-based entrepreneurial phases and move upwards to higher stages of their entrepreneurial careers. It leads to the proposition below.

**Proposition 18:** Opportunities created by favourable regulations which were recognised by necessity entrepreneurs facilitate the transition from necessity entrepreneurship to the subsequent opportunity entrepreneurship.

#### **5.4.2.6 Summary of the opportunities**

As another major determinant of the transition process, opportunities played significant roles. The data revealed that initial necessity-based entrepreneurship phases had positive impacts on discoveries of further entrepreneurial opportunities. A majority of participants stated that further entrepreneurial opportunities were perceived while running initial necessity-based businesses. Opportunities were mainly of two types. Firstly, entrepreneurs deliberately looked for lucrative entrepreneurial opportunities. Secondly, entrepreneurial opportunities emerged occasionally while operating initial businesses. The entrepreneurs therefore responded to opportunities by further exploiting them.

The study further revealed that lucrative opportunities were discovered during five approaches, including new products, markets, inputs, management, and regulations. That is, opportunities emerged when new products were observed as potentials for introduction to markets. New products clustered into three traits: new product offering, upgrades, and improvement of existing products. Perceiving gaps in existing markets also created entrepreneurial opportunities. Market demands changed over time and the market demand changes resulted not only from changes in customers' perceptions, but also from expansion of the total market size. All entrepreneurs perceived gaps in markets and discovered opportunities from unexploited markets. Opportunities were also found concomitant to discovery of new inputs. The study identified three main new input types including new suppliers, raw materials, and business platforms. A majority of cases revealed that these new inputs were realised during the running of initial businesses and gaining access to new inputs facilitated the discovery of entrepreneurial opportunities. The findings of new management skills also aided entrepreneurs to perceive entrepreneurial opportunities. Especially in Case 1, recognising the management weaknesses in state-owned pharmacies allowed the entrepreneur to envision this industry's future. However, the effect of new management skills on the identification of entrepreneurial opportunities was only evidenced in half of the cases in this study. It was interesting to note that favourable regulations provided numerous entrepreneurial opportunities. A majority of entrepreneurs benefited from these regulation changes. Especially in the period between the late 1980s and late 1990s, private enterprises

were given incentives by the issuance of favourable regulations which drove entrepreneurs forward in the entrepreneurial careers.

## 5.5 Transition process model

***Research Question 4:** What is the transition process from the necessity-based start-up to the subsequent opportunity-based entrepreneurship?*

This research question was answered by investigating the transition process in each case. Based on the findings of the investigation, the similarities of the transition process in each case were extracted in order to propose a transition process model from necessity-based start-up to the subsequent opportunity-based entrepreneurship. Based on the analysis, it was found that there were four main stages of the transition process.

- (1) Pre-venture stage
- (2) Necessity-based entrepreneurship stage
- (3) The transition from necessity-based start-up to the subsequent opportunity-based entrepreneurship stage
- (4) Opportunity-based entrepreneurship stage

Accordingly, the process model demonstrates how individuals experience these four stages in their entrepreneurial careers and what the key factors that influence each stage are. Each of the four stages is explained as follows:

### **Stage 1: Pre-venture stage**

The first stage of this process model is the pre-venture stage. This stage is composed of two main factors: the motivations for being self-employed and the background characteristics to set up small or

informal businesses. As discussed in Section 5.2.1, the motivations that forced individuals to consider self-employment revolved three main types including encountering difficulties in career situations, financial situations, and family situations.

The findings from the case analyses reflected that individuals encountered difficulties in their career situations such as unemployment, layoff, or dissatisfaction with current jobs. Their financial difficulties included the need for financial independence, supporting families, or repaying loans. The effects from their family situations were primarily in two categories: family responsibility and family encouragement. The combined impacts of these reasons therefore prompted individuals to consider establishing their own small businesses. This was described by J1: *“All the problems pushed you to cross the bridge, because the route of retreat was burnt. You didn’t have other choices.”*

With self-employment in their minds, individuals then began to consider the feasibilities of setting up necessity-based businesses. Because the nature of necessity-based entrepreneurship was usually in the form of small or informal businesses, entrepreneurs found that entry barriers were relatively low compared with other types of entrepreneurship. As discussed in Section 5.2.2.1, low entry thresholds were of three sorts, including minor regulation restrictions, low skills requirements, and low financial costs. It was stated by L2 that: *“Even now, opening a small store was not that complex. All you need is official registration and space rental.”* Furthermore, it is found that low opportunity costs of establishing necessity-based entrepreneurship also facilitated individuals to involve in necessity entrepreneurship. This was evidenced by the fact that a majority of entrepreneurs had alternative options if their businesses did not succeed. It was stated by J1 *“If I failed, I might go for another business or might find a job.”* Similar opinion was also addressed by L2, *“If it did not run well, I would just shut it down, and I don’t think it would have much impact on me.”*

Overall, the pre-venture stage was a starting point and also a milestone for entrepreneurs. At this stage, individuals were forced to consider being self-employed because they encountered difficulties in career, financial, or family situations. The idea of self-employment then pushed individuals to consider doing so. The main factors which allowed them to become involved in necessity-based entrepreneurship were the characteristic backgrounds of necessity entrepreneurship including low entry thresholds and low opportunity costs.

### **Stage 2: Necessity entrepreneurship stage**

The second stage of the process model is the necessity entrepreneurship stage. This stage is composed of two sub-phases: the necessity-based start-up and the operating of the necessity-based business. As has been discussed previously, individuals' necessity-based entrepreneurship was mainly in the form of small or informal businesses. Accordingly, setting up the businesses was not complicated. Evidence further showed that establishing necessity-based entrepreneurship did not consume too much time or money.

However, even though the necessity-based entrepreneurship was in the form of small or informal businesses, entrepreneurs in this study shared a similarity in that, they were diligent and their necessity-based businesses were managed well. The data further showed that they operated the necessity-based businesses for an average of 5.1 years, and they earned satisfactory incomes through the necessity-based businesses.

### **Stage 3: the transition stage from NE to OE**

There was an impact of the initial business on the establishment of the subsequent business. Entrepreneurs in this study were found to earn satisfactory livelihoods via initial entrepreneurship. The necessity-based businesses were operated well and generated good levels and regular incomes. A majority of cases indicated that entrepreneurs were satisfied to be self-employed rather than being

employed. One main consideration was that they earned good incomes. This was exemplified by conversation with D3 and Z6. *“I could earn more money by running my own business.... To be honest, I didn’t consider looking for a job after graduating.” (D3) “Running my own business made much more money than working for others.... Why shouldn’t I carry on?” (Z6).* Therefore, the negative impacts of setting up business out of necessity did not last long. Instead, the entrepreneurs started to consider further developing their entrepreneurial careers.

The positive initial business results made entrepreneurs’ motivations shift from initially only earning livelihoods to greater willingness to further develop their entrepreneurial careers. It was described by J1: *“You had different needs in different stages.... I had gone through tough time and then I started to think about my business in the future.”* W2 also stated that: *“...the motivations were different, but most were money-oriented.”* In this respect, entrepreneurs were encouraged to pursue and discover more entrepreneurial opportunities and establish businesses based on these opportunities. These motivations encouraged entrepreneurs to become involved in further entrepreneurial activities were varied and categorised into: income generation, entrepreneurial satisfaction, growth prospects, personal interests, and social status.

Resources, as a key factor of the subsequent opportunity entrepreneurship, were accumulated during the operation of necessity-based businesses. As discussed in Section 5.4.1, three main resources were essential for follow-up opportunity entrepreneurship including *guanxi*, human resources, and financial resources. During the running of initial businesses, more *guanxi* was introduced and maintained by entrepreneurs. The important of *guanxi* on subsequent entrepreneurship was due to the imperfection of China’s institutional environment which is not as conducive to private sectors as it could be (e.g., Zhou, 2011). This immature institution forced entrepreneurs to rely on the informal form of connection with governments. Once *guanxi* was established, entrepreneurs could ask favours repeatedly. One typical example was Case 2 in that L2 got many ‘green lights’ from the government.

These favours facilitated the operation of his business. However, the establishment and maintenance of *guanxi* required funds and time. This was addressed by W2: “*Spending money on useful guanxi was the key.*”

For human resources, entrepreneurial teams were emphasised. The team members were composed from their previous employees, business partners, or friends made in previous businesses. As indicated by D3 in Case 3: “*I trusted people I’d been working with before.... W3 and I have known each other for a long time.*” Another example was from Case 5, “*I needed a person I could trust completely in financial matters.... L5 was my financial manager in the previous factory and now she is currently in charge of all facets of finances in my business.*”(X5)

The possession of prior founding experience or industry specific experience explained reasons to work with teams. For financial resources, it was found that necessity-based businesses generated good incomes which then became a major part of the set up capital for the follow-up entrepreneurship. Competent operation of necessity-based businesses also allowed entrepreneurs to gain access to more *guanxi* and garnered loans from friends and relatives. The accumulations of these resources then played vital roles in the subsequent entrepreneurship.

For opportunity discovery and exploitation, it was found that once the aspirations of further entrepreneurial development emerged, entrepreneurs sought more entrepreneurial opportunities. As indicated by L4 in Case 4: “*I tried to receive as much information as I could, keep an eye on the market resulted in good opportunities that others didn’t see yet.*” The opportunities were also perceived by entrepreneurs accidentally. Evidences were found in Cases 1, 4, 5, and 6: “*I was surprised and excited to hear that individuals were allowed to participate in the medical industry.... This opportunity was a turning point for me.*” (J1) “*I heard of air-added foam bricks when chatting*

*with some friends...” (L4) “...the project was from a friend, I didn’t know much about the real-estate business.” (X5) “I thought I was completely out of the medical business until I heard that they wanted to sell the pharmaceutical station.” (Z6).*

Overall, the opportunities were discovered from five approaches: new products, market demands, inputs, management methods and regulations. Once opportunities were considered lucrative, entrepreneurs then exploited them by applying resources.

#### **Stage 4: the opportunity entrepreneurship stage**

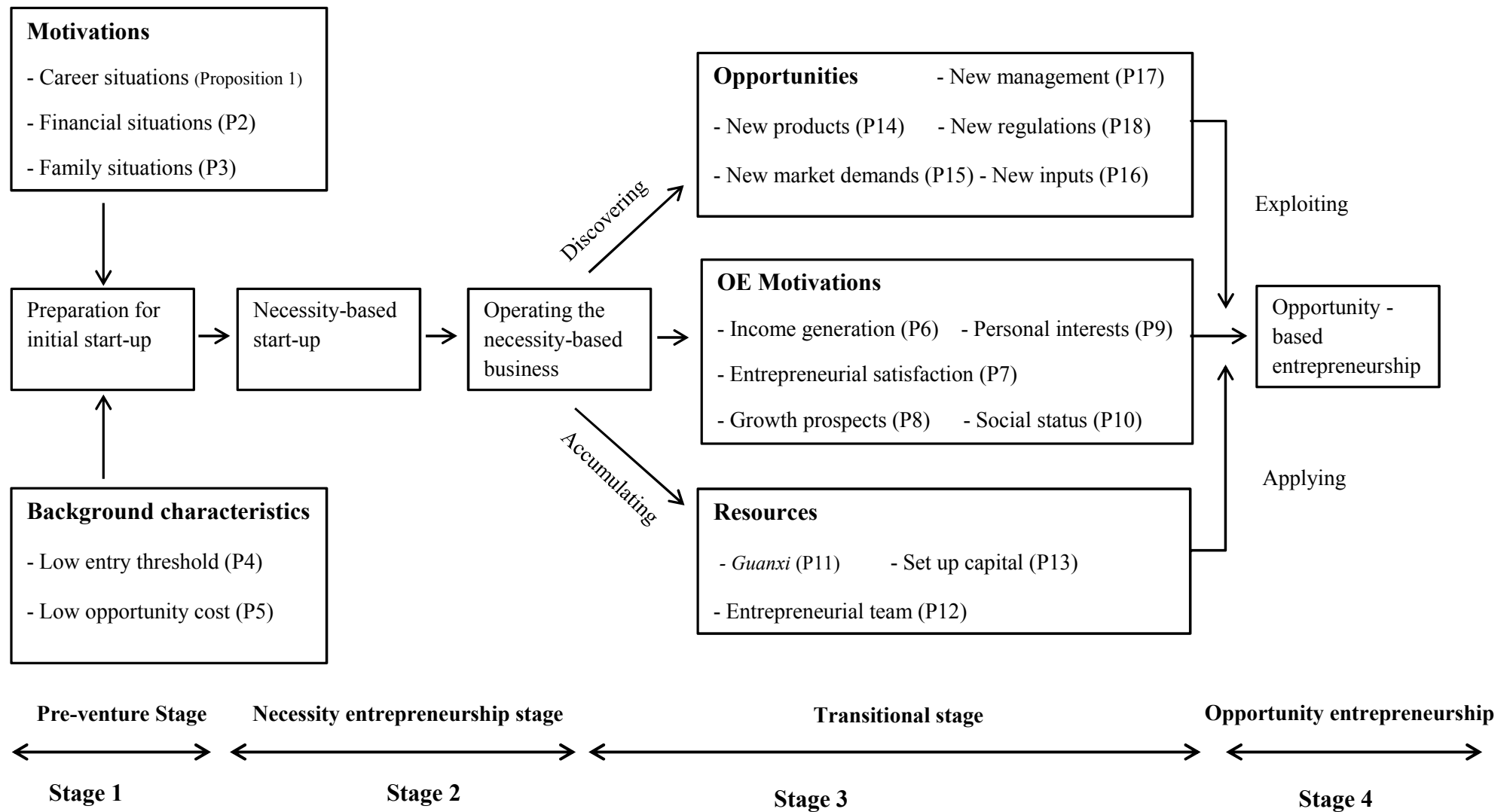
The opportunity-based entrepreneurship was mainly in the form of more formal and large businesses compared with initial necessity-based businesses. It was found that when entrepreneurs established the opportunity-based entrepreneurship, a majority of them dropped out their initial necessity-based businesses due to the fact that the initial businesses were insignificant to maintain compared with the new businesses. Take Case 2 as an example, when his new restaurant was established, he closed his small take-away shop, and put all his efforts into the new restaurant which was twenty times larger than his previous shop.

The opportunity entrepreneurship was another significant milestone in entrepreneurial careers, which allowed entrepreneurs to expand their businesses based on them. The evidence showed that the opportunity-based entrepreneurship generated satisfactory entrepreneurial results. Currently, those entrepreneurs own multiple businesses and have an average of 113 employees.

Based on the findings and the propositions developed in above section, the process model from necessity-based start-up to the subsequent opportunity entrepreneurship was developed, which is displayed in Figure 5-1.



**Figure 5-1: The process model from necessity-based start-up to the subsequent opportunity entrepreneurship**



## 5.6 Summary

Many successful entrepreneurs started businesses from almost nothing and were initially forced to become self-employed. However, they worked hard and earned satisfactory livelihoods. Through self-employment, they were therefore motivated to go further in their entrepreneurial careers by searching for entrepreneurial development.

The case results demonstrated the whole entrepreneurial process from the necessity-based start up to the subsequent opportunity entrepreneurship. To comprehend the process, the results were demonstrated by dividing into four main sections. The first section answered the research question 1: *What are the motivations and contextual factors that 'push' individuals to start initial necessity-based businesses?* By analysing the data, it was found that the motivations of necessity entrepreneurship were mainly from career, financial, and family situations. As to career situation, encountering unemployment, layoff, and dissatisfaction with current jobs usually led to considering self-employment. However, career situations were not the only reasons. Individuals' financial difficulties and familial influences also contributed significantly to decisions to start the necessity entrepreneurship. The results further showed that individuals were allowed to become involved in necessity entrepreneurship because necessity entrepreneurship was usually in the form of small or informal businesses. These types of businesses share some similarities that allowed individuals to do so: low entry thresholds and low opportunity costs. Low entry thresholds, low regulation restrictions, low requirements for skills, and low financial costs were primary reasons that allowed individuals to start with small businesses. The results also reflected that low opportunity costs encouraged them to do so.

The second section of the results answered research Question 2: *What are the motivations that 'pull' necessity entrepreneurs into the subsequent opportunity entrepreneurship?* Necessity entrepreneurs

were encouraged to consider further entrepreneurial development by being involved in opportunity entrepreneurship due to five key factors including income generation, entrepreneurial satisfaction, growth prospects, personal interests, and social status.

The third section of the results answered the research Question 3: *What are the key factors that determine the shift from the necessity-based start-up to the subsequent opportunity-based entrepreneurship? How do these factors impact on the shift?* The results indicated that two key factors determined transition processes including resources and opportunities. As to resources, the results showed that resources were accumulated while running initial businesses, and then were applied in the process to establish the subsequent opportunity-based entrepreneurship. Three main types of resources were emphasised: *guanxi*, entrepreneurial teams, and financial resources. As to opportunities, the results indicated that subsequent entrepreneurial opportunities were mainly from five approaches: new products, market demands, inputs, management methods, and regulations. These opportunities were either deliberately searched by entrepreneurs or emerged accidentally while operating initial businesses.

A process model was developed in the last section to answer research Question 4: *What is the transition process from the necessity-based start-up to the subsequent opportunity-based entrepreneurship?* This model illustrates the whole entrepreneurial process from necessity-based start-up to the subsequent opportunity-based entrepreneurship. This process model is comprised of four main stages: pre-venturing, necessity entrepreneurship, transition, and opportunity entrepreneurship stages. Overall, this chapter explored the entrepreneurial process from necessity-based start-up to the subsequent opportunity entrepreneurship. This process was comprehended by answering three research questions and determining the key factors influencing each stage of the process. Eighteen propositions were developed based on the results.

## **Chapter 6 Discussion, conclusion, and recommendation**

### **6.1 Introduction**

Focusing on specific categories of entrepreneurs has been a growing tendency in entrepreneurship research (McMullen et al., 2008; Timmons et al., 2004; Ucbasaran et al., 2001), since different entrepreneurial phenomena and economic developments are only explained comprehensively by the appropriate selection of categories of entrepreneurship (e.g., Reynolds et al., 2001; Rosa et al., 2006; Smallbone & Welter, 2004). Among all categories of entrepreneurship, the terms necessity entrepreneurship and opportunity entrepreneurship have a focus (Verheul et al., 2010). Applying this entrepreneurship typology has explained many entrepreneurial phenomena in both macro-level and micro-level studies, especially the entrepreneurial activities in developing and emerging countries (Rosa et al, 2006).

Existing studies on necessity entrepreneurship and opportunity entrepreneurship also reveal that self-employment which started as a reluctant choice may evolve into a desirable alternative over time (Granger et al., 1995; Hinz & Jungbauer-Gans 1999), demonstrating that entrepreneurship is a dynamic phenomenon. This phenomenon is a process of new venture creation process (Gartner, 1985) which should also be treated as a keystone of the nature of entrepreneurship (Moroz & Hindle, 2012). The purpose of this study was to better understand the concepts of necessity entrepreneurship and opportunity entrepreneurship, and therefore investigate the subsequent entrepreneurial activities of the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship. The need for such a study was supported by previous studies that opportunity entrepreneurship is more desirable than necessity-driven entrepreneurship in terms of the impacts on economies as well as the outcomes to individuals (e.g., Block & Wagner, 2007; Block & Sandner, 2009; Harding, 2003; Henrekson, 2004; Minniti et al., 2005;). Therefore, interpreting the transition process is significant.

The scope of this study is detailed in Chapters 1-5, the background of entrepreneurship in China, the literature review, the methodology, the data analysis and results regarding the phenomenon are therein. Chapter 6 presents the summary of this research, discussions, conclusions, limitations, and recommendations for future research regarding the transition process from necessity-based start-up to the subsequent opportunity-based entrepreneurship.

## **6.2 Summary of the study**

Reviewing the literature showed that most studies follow a similar track to examine the distinction and impact of necessity entrepreneurship and opportunity entrepreneurship and scantily evaluate the transition relationship, particularly in the context of continuous venturing. According to a recent study by Macke and Arnold (2012), in America, very few entrepreneurs can successfully upgrade to opportunity entrepreneurs. Specifically, of the 10 million new necessity entrepreneurs, only ten percent will transition to opportunity entrepreneurship in subsequent venturing, indicating the difficulty in transition from necessity-based start-up to the subsequent opportunity entrepreneurship. Consequently, to better understanding this transition process is necessary which therefore created the impetus for this current research.

Since the necessity entrepreneurship is more prevalent in developing countries, China as an emerging and developing country was selected as the context of study. According to Harper (2003), developing countries characterised by collective culture might possess some different social elements influencing entrepreneurship development, the study of entrepreneurship in China might create extra strength to this study. Overall, the economic development in China was discussed and Chinese entrepreneurship environments, including the institutional and cultural environments, were discussed in order to reveal different social elements that may influence the entrepreneurship in China. The development of entrepreneurship in China was discussed based on three main phases including the period 1949 to

1978 (suppression of entrepreneurial activities), 1979 to 1996 (emergence of entrepreneurship), and the years from 1997 to the present (removal of ideological discrimination on entrepreneurship).

The review of entrepreneurship-related literature started with the introduction of main schools of thought of entrepreneurship, then different levels of studies in entrepreneurship were then analysed. Because entrepreneurs play key roles in the entrepreneurial activities, different classifications of entrepreneurs were discussed. The comparison of necessity entrepreneurship and opportunity entrepreneurship indicated that these two types of entrepreneurship were distinguished in 'push' and 'pull' forces, the social economic characteristics, and the determinants and outcomes. The fact that opportunity entrepreneurship is more desirable than necessity entrepreneurship suggested that necessity entrepreneurship may create better results by involving in subsequent opportunity entrepreneurship. In this regard, the literature review then focused on subsequent entrepreneurial activities. Accordingly, the prevalent phenomenon associated with opportunity recognition and the establishment of subsequent ventures was explained by the corridor principle, and the utilisation of available resources was illuminated by the effectuation theory. As a keystone of the debate on the nature of entrepreneurship, the entrepreneurial process was discussed. Based on the entrepreneurship-related literature review, a conceptual framework was proposed, which illustrates the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship and the determinants of each phase.

Using a qualitative case study method, six cases were selected. Each case included the entrepreneur and his friends and employees, in total 23 participants. Participants were all interviewed in relation to the business owners' entrepreneurial careers, especially the transition process sections. Interview questions are recorded in Appendix 3. Data collection methods also included the researcher's observations. The demographics of cases and description of cases were displayed. Emergent themes were extracted based on the data analysis. Data analysis and results were organised based on the main themes and research questions. Based on the results, a transition process model was developed. The research results are discussed in the following section.

## 6.3 Discussion of the results

The demonstration of the results of the data collection in Chapter 4 and 5 provided a comprehensive analysis of the findings described in narrative, charts, and tables. The discussion of the results of the analysis relating to main themes and research questions is presented in this section. The discussion is based on the research questions.

### 6.3.1 Determinants of the necessity-based start-up

*Research question 1: What are the motivations and contextual factors that ‘push’ individuals to start initial necessity-based businesses?*

The results of this research reflected that these ‘necessity-opportunity shift entrepreneurs’ had similarities in involving in initial necessity entrepreneurship. They were forced to become self-employed during beginning stages of their entrepreneurial careers. This was consistent with suggestions in the literature that the individuals are forced into necessity entrepreneurship because all other options for work are either absent or unsatisfactory (Acs, 2006; Bosma & Harding, 2006; Reynolds et al., 2001) and the need to survive drives individuals to engage in this type of entrepreneurship (Kobia & Sikalieh, 2010). It further revealed three main ‘push’ factors behind the force, including career situation, financial situation, and family situation. Having difficulties in these three situations therefore had a direct impact on the decision to become involved in necessity entrepreneurship.

A majority of entrepreneur participants had difficulty in careers, manifest by unemployment, layoff, and job dissatisfaction. Five out of six entrepreneur participants experienced low job opportunities in the 1980s and early 1990s. Adversities in employment during that period were due to the fact that China was still impoverished and struggling with economic reforms. The economy was still primarily

comprised of state-owned enterprises (Krug & Polos, 2000; Liao & Sohmen, 2001; Mohapatraa, Rozellea & Goodhuea, 2007) and private firms were limited to employing no more than seven people (Zhou, 2009). Furthermore, the large-scale restructuring of state-owned enterprises in the early 1990s (Yueh, 2009) also contributed to the high rate of unemployment. It is also interesting that the unique recruiting system in the 1980s, assigned newly graduated students to jobs by institutions in state-owned sectors. Only by adhering to this system and accepting the job assignment could employees secure the so called 'Iron Rice Bowl' employment result (Liao & Sohmen, 2001).

The connection between financial concerns and start-up motivations were also evident in this study. The findings revealed that financial concerns were the main force pushing individuals to be involved in self-employment. This evidence supports the previous literature that potential necessity entrepreneurs typically lived in poverty (Reynolds, 2001; Rosa et al., 2006) and the financial motives are a major incentive for individuals to engage in self-employment activities (Yueh, 2009).

Previous research has focused more on the role of work-family motivations (Hughes, 2006; Morrish, 2008) which was discovered to be another big factor having impacts on decisions to become self-employed. The finding confirmed two facets of family situations related to motivations: family responsibilities and family encouragement. Entrepreneur participants reported that influences of familial situations were mainly from parents, since all of them started initial businesses prior to being married. The evidence of family responsibilities supported the literature regarding the emphasis of Confucian culture on the importance of families which was viewed as essential social unity (Zapalska & Edwards, 2001). The motives of taking care of parents and proving parents with better lives were also evidenced in the findings, which were consistent with the literature of strong commitment to family in that entrepreneurs work hard to contribute to family welfare (Zapalska & Edwards, 2001). Familial supports especially by parents played significant roles to encourage entrepreneur participants



being independent by starting initial businesses. This argument was also supported by Morrish's (2008) findings of entrepreneurial motivations.

Driven by these three main factors into necessity entrepreneurship suggested that necessity entrepreneurs' motivations having little to do with growth prospects and growth intention prior to starting initial businesses (Bergmann & Sternberg, 2007). They encountered different difficulties during their early lives, and they were thus subsistence and poverty driven (Van Dijk & Alberts, 1994) into initial businesses. These research results also indicate that these three factors had combined effects on pushing individuals into self-employment. More generally speaking, other research shows that the unemployment does not lead individuals to necessity entrepreneurship if they were protected by good welfare system (Frese & De Kruif, 2000) or financially supported by families. Furthermore, if the welfare system in China could protect them from poverty, they would not have been 'push' into necessity entrepreneurship.

### **6.3.2 Motivations of the subsequent opportunity-based entrepreneurship**

***Research question 2:** What are the motivations that 'pull' necessity entrepreneurs into the subsequent opportunity entrepreneurship?*

Entrepreneurs in this study went further in their entrepreneurial careers after initially becoming involved in the necessity-based entrepreneurship. However, their motivations for engaging in the subsequent opportunity entrepreneurship appeared to be different from their initial motivations (career, financial and family reasons) to starting initial businesses. This was mainly due to entrepreneurs earning satisfactory livelihoods through entrepreneurship even though they were based on necessity start-ups, they were more likely to stay and further their entrepreneurial careers. This finding was reflected in the arguments of existing literature that the negative effects of necessity-based

entrepreneurship on further entrepreneurial activities decreased and necessity entrepreneurship which started as reluctant decisions may evolve into desirable alternatives over time (Granger et al., 1995; Hinz & Jungbauer-Gans, 1999; Kautonen & Palmroos, 2010). Consequently, it further suggested that entrepreneurship is a dynamic process (Granger et al., 1995; Ronstadt, 1988) in the form of multi-venture activities.

Once the initial business success had been achieved, the ‘push’ factors were no longer a concern. As suggested by Kautonen and Palmroos (2010), once individuals are satisfied enough, they prefer to stay in business and therefore entrepreneurship cannot be deemed as necessity even though start-ups were based on necessity reasons. Consequently, engaging in the subsequent opportunity entrepreneurship is about achieving higher levels of success rather than a response to reluctance. The reasons that necessity-based start-up entrepreneurs moved into opportunity entrepreneurship are then explained by the factors of entrepreneurial satisfaction, higher social status, growth prospects, personal interests, and increasing income motivations.

Entrepreneurs were found to possess high levels of entrepreneurial satisfaction. This was due to entrepreneurs’ initial businesses helped them step out of difficulties by solving financial, family and career issues. This finding was also supported by a number of other studies reporting that self-employments in general express higher levels of job satisfaction, and entrepreneurs prefer to stay in their own businesses rather than working for others (Benz & Frey 2004; Blanchflower & Oswald, 1998; Finnie et al., 2002; Hundley, 2001). This satisfaction encouraged entrepreneurs to remain in entrepreneurial careers and then seek more entrepreneurial opportunities.

However, this argument provides little consistency with some previous studies which suggested that starting up businesses by necessity contributes less satisfaction to the following entrepreneurial

activities (Block & Wagner 2007; Galbraith & Latham 1996; Kautonen & Palmroos, 2010). This inconsistency was mainly due to the fact that the entrepreneurs in this current study achieved higher success levels during necessity entrepreneurship stages than other necessity entrepreneurs in general. Thus, the negative impact from ‘push’ reasons in early entrepreneurial stages decreased over time and the good performance of necessity-based businesses created more entrepreneurial satisfaction and eventually encouraged entrepreneurs to business expansions.

Pursuing higher social status and being respected became another factor which drove entrepreneurs to develop and expand to achieve higher business success levels. This reason was influenced by traditional Chinese culture and collective culture. Traditional Chinese culture and the collective culture possess different social elements influencing the development of entrepreneurship (Harper, 2003). Traditionally, running a small business, employing oneself, was the bottom rung of Chinese society, and this position was further reinforced by Maoism. Only by achieving higher level of business success could entrepreneurs gain more respect and possess higher social standing. Moreover, the perception of higher social status helped to develop and gain access to more *guanxi* (Yueh, 2009), which further explained the importance of achieving higher social status.

Instead of merely safeguarding livelihoods in the initial necessity entrepreneurship, entrepreneurs appear to consider growth prospects for the subsequent venturing. This finding was consistent with Bergmann and Sternberg’s (2007) study that the further growth is considered by entrepreneurs in later stages of entrepreneurial activities. This motivational change occurred because necessity entrepreneurs succeeded and once livelihoods were secured, more ambitious targets were pursued.

Personal interests played important roles to influence decisions to pursue other ventures. Here again, there is confirmatory evidence besides the monetary side of things, pursuing personal interests

motivated them to be involved in industries which piqued their interests. This deliberate choice based on personal interests was found in previous studies that entrepreneurs pursued their hobbies into business and this non-economic objective also created a higher level of satisfaction in business (Cooper & Art, 1995; Morrish, 2008).

Prospects for increasing incomes also pulled entrepreneurs to engage in the subsequent opportunity entrepreneurship. This was supported by some studies asserting that one of entrepreneurs' intentions was to earn more money to achieve financial security and further financial success (Birley & Westhead, 1994; Knight, 1987; Scheinberg & MacMillan, 1988), and the financial motives play a major role for individuals to be involved in entrepreneurial activities (Block & Koellinger, 2009).

However, motivation for independence and autonomy was not found in this study, which differed from Benz and Fey's (2004) finding that those two characterisations are important for entrepreneurs to further their entrepreneurial careers. The primary basis for not considering independence and autonomy was that they were initially forced to be self-employed, to support themselves. Working assiduously became a lifestyle, and independence or autonomy were at best asides.

### **6.3.3 Determinants of the transition from necessity-based start-up to the subsequent opportunity based entrepreneurship**

*Research question 3: What are the key factors that determine the shift from the necessity-based start-up to the subsequent opportunity-based entrepreneurship? How do these factors impact the shift?*

This research further shed light on the determinants of how necessity start-up entrepreneurs then transition to opportunity entrepreneurship as their subsequent entrepreneurial activities. The motives for emphasising this issue were threefold. Firstly, there has been a semantic move towards the use of

two terms in entrepreneurship study (Verheul et al., 2010), necessity entrepreneurship and opportunity entrepreneurship since they were introduced by Reynolds et al., (2010). Studying this issue was a good approach to comprehending entrepreneurship. Secondly, research mostly followed a similar track by focusing on the distinction of necessity entrepreneurship and opportunity entrepreneurship and studying their differences became a common theme (Harding, 2003; Harding et al., 2006; Maritz, 2004; Minniti et al., 2005; Perunovic, 2005). Except for a study by Macke and Arnold (2012) that reveals a transition from necessity entrepreneurship to opportunity entrepreneurship, there was little research studying the relationships between necessity entrepreneurship and opportunity entrepreneurship, nor any explaining how necessity entrepreneurs develop and engage in the subsequent opportunity entrepreneurship, even though existing studies have identified shifts in their motives away from necessity drivers to opportunity drivers (Williams et al., 2006; Williams & Round, 2009; Williams & Williams, 2011). Thirdly, this transition was prevalent in developing countries. Discovering the determinants of this transition would help understand this phenomenon and provided guidance to entrepreneurs.

With this in mind, this researcher focused on what the determinants of this transition from necessity entrepreneurship to opportunity entrepreneurship are, and how these determinants work to answer the research question. The findings reflected that the subsequent opportunity entrepreneurship was associated with entrepreneurs who were opportunity-driven by resources. The ability to accumulate and enhance resources and discover opportunities during necessity entrepreneurship stages are the most important predictors of further entrepreneurial activities.

#### **6.3.3.1 Resources**

The study demonstrated that entrepreneurs started businesses based on necessity, possessed few resources, but later gained their resources via operating these businesses and interacting with external environments. This finding was consistent with the evidence from previous studies claiming that

habitual entrepreneurs possessed more resources and diverse experiences compared with other types of entrepreneurs (Westhead et al., 2005). The findings further confirmed that necessity entrepreneurs utilise the resources they possessed to facilitate the establishment of subsequent businesses rather than trying to predict the future of the businesses. This finding is consistent with the argument that experienced entrepreneurs use an effectual logic for the subsequent venturing (Morrish, 2009; Read et al., 2009; Sarasvathy, 2001).

It is interesting to find that entrepreneurs all considered *guanxi* as the most important resource which played a key role in entrepreneurship. This evidence suggested that having large and good *guanxi* increased the likelihood of business success. Therefore, entrepreneurs were more likely to gain access to more *guanxi*. This heavy reliance on *guanxi* in business showed that there is a close relationship between starting businesses and possessing the *guanxi* to do so. This finding was consistent with Yueh's (2009) study that the development of the private sector is likely to evolve around *guanxi*, which is an informal and relationship-based contracting. Doing business based on *guanxi* was explained by the imperfection and uncertainty of legal and financial contexts in China (Hoang & Antoncic, 2003; Yueh 2007, Zhao et al., 2010), the influences from traditional culture (Chen & Francesco, 2000; Child & Lu, 1996), social collectivism (Zapalska & Edwards, 2001; Tan, 2002) and the historical traditions of *guanxi* in business (Carney & Gedajlovic, 2003).

The study further revealed that to develop such abilities to exploit *guanxi*, entrepreneurs needed to have access to business networks in the first place. These abilities were developed during entrepreneurs' initial necessity-based businesses, acted as platforms to gain access to more business networks. The importance of platforms was evidenced in that a majority of *guanxi* was established during necessity stages. This finding was supported by some studies which indicated that previous businesses help entrepreneurs develop *guanxi* and access to more *guanxi* (Peng & Luo, 2000). In this regard, there were impacts of necessity-based start-ups on the subsequent business activities.

Yueh (2009) emphasised the gap stating it is difficult to disentangle the areas where *guanxi* is most useful. This study revealed three types of *guanxi* that facilitated entrepreneurs' subsequent opportunity entrepreneurship, including *guanxi* with governments, *guanxi* with suppliers, and *guanxi* with friends and relatives. *Guanxi* with governments eased the complicated business processes such as business registrations. Further, it is interesting to discover the importance of *guanxi* with suppliers. This was because in the 1990s a large number of industries were dominated by the State, and private operators lacked access to supply networks (Yueh, 2009). Without *guanxi*, suppliers were reluctant to deal with private businesses. This phenomenon was prevalent at that time. It was due to the imperfection of China's institutional environment which was not that conducive to private business (Baumol, 1990; Sobel, 2008; Zhou, 2011). As to *guanxi* with friends and relatives, this *guanxi* helped ease credit constraints, provided more information and accessed to more business networks. This is consistent with the findings in entrepreneurship literature that focuses on the importance of knowing friends and relatives who are involved in business (Blanchflower & Oswald, 1998).

Besides the finding of *guanxi* as a resource in the establishment of the subsequent opportunity entrepreneurship, the effects of human resources were obvious, especially the finding dependence of the internal human resources- entrepreneurial teams on subsequent ventures. This finding further confirms positive relationships between necessity start-up businesses and subsequent business successes. The revelation of entrepreneurial team roles in subsequent ventures was consistent with the literature indicating that there is a growing trend to recognise the importance of founding teams rather than individual entrepreneurs (i.e., Bamford et al., 2004; Eisenhardt & Schoonhoven, 1990).

The contributions of entrepreneurial teams on subsequent opportunity entrepreneurship were of two types, their prior entrepreneurial experiences and industry specific experiences. These experiences played roles to help with the development of experientially-acquired skills, accessed to more business networks, led into more knowledgeable actions and discovered potential entrepreneurial opportunities.

This finding was supported by entrepreneurship literature detailing that these experiences were critical (Cooper & Bruno, 1977; Leary & Devaughn, 2009; Kumar & Ali, 2010) and predictors of venture successes (Baptista et al., 2014; Leary & Devaughn, 2009; Westhead & Wright, 1999). Therefore, businesses set up by entrepreneurial teams are more likely to be sustainable than those launched by individual entrepreneurs (Zacharakis et al., 2011).

In terms of financial resources, it was found that a majority of financial resources for subsequent businesses were accumulated from incomes of previous businesses. Accordingly, the positive relationships between initial necessary-based businesses and the subsequent opportunity entrepreneurship were reinforced. It was unexpected that entrepreneurs could not gain access to loans from banks. However, most entrepreneurs in this study established their subsequent businesses in the 1990s, which was a time when institutional barriers still existed (Baumol, 1990; Sobel, 2008; Zhou, 2011) included credit constraints (Yueh, 2009). For this reason, entrepreneurs had to borrow from friends and relatives to cover the funds insufficiencies. This further underpinned the importance of *guanxi* with friends and relatives when doing business in China (Blanchflower & Oswald, 1998).

#### **6.3.3.2 Opportunity**

Analysis of the results revealed another primary transition driving force, entrepreneurial opportunity. The research had elucidated that lucrative opportunities for further entrepreneurship were identified by entrepreneurs in their initial necessity-based businesses. With a more desirable alternative for business, entrepreneurs then took advantage of these opportunities and exploited them by engaging in corresponding subsequent businesses. This finding was supported by Ronstadt's (1988) statement of the corridor principle, who stated that the mere act of starting a venture allows entrepreneurs to see other venture opportunities that they could neither perceive nor exploit until the initial venture is started. The previous businesses based on necessity start-ups allowed entrepreneurs to generate new knowledge about products, markets, suppliers, management, as well as the abilities to maintain high



levels of 'alertness'. Once lucrative opportunities emerged, entrepreneurs could perceive and pursue them. Therefore, entrepreneurs who discovered opportunities were significantly different from non-entrepreneurs (Shane, 2003), and necessity entrepreneurs may evolve into more attractive alternatives by exploiting these opportunities (Hinz & Jungbauer-Gans, 1999; Kautonen & Palmroos, 2010).

Besides the effects of previous business experiences on opportunity discoveries, labour market experience and schooling were also found to play some roles. This result is explained by the 'information asymmetries' (Shane, 2003) which is one component of 'alertness'. Specifically, previous business experience and schooling increase the knowledge and information possessed by entrepreneurs, and this allows them to have higher levels of 'alertness', in other words, finding unique opportunities that others cannot.

Previous research merely focused on entrepreneurial actions when lucrative opportunities existed Kirzner (1973 & 1997), and paid less attention to where these profit opportunities originated. With this in mind, this study further reveals that opportunities were discovered by five main approaches including new products, new markets, new inputs, new management and regulations.

New products were found to be one of the main reasons which drove entrepreneurs to discover opportunities. The finding was consistent with the argument of Holcome (2003) that new products made entrepreneurs play roles of innovators and pulled them into the only position to observe profitable entrepreneurial opportunities, while others did not have similar experiences. These arguments were strongly evidenced in examined cases. Entrepreneurs possessed innovative and unique products which allowed them to discover more profitable entrepreneurial opportunities. These entrepreneurial opportunities discovered from new products therefore facilitated the creation of entrepreneurs' further ventures.

Additionally, the entrepreneurial opportunities from new products were realised while running previous necessity-based businesses. This finding also supported arguments of previous studies that there are positive impacts of previous businesses on opportunity discoveries (e.g., Hinz & Jungbauer-Gans, 1999; Ronstadt, 1998; Ronstadt, 2007), and entrepreneurial opportunities must be identified before new ventures are founded (Singh, 2001). The important role of new products in entrepreneurial opportunity discovery was also evidenced from Singh's (2001) argument that potential ventures that provide innovative new products to the market, improve on existing products, or imitate profitable products in a less than saturated markets, create entrepreneurial opportunities. The entrepreneurial opportunities from products were feasible, profit-seeking, potential ventures that provide innovative new products or service to markets, improve on existing products, or imitate profitable products.

In terms of new market demands, all entrepreneurs in this study perceived gaps in market demands and discovered opportunities from unexploited markets. Market demand changes were mainly of two sorts. One was from the changes in customers' perceptions and the other was from expansions of total market sizes.

For the change of customers' perceptions, it was interesting to find in this study that in the late 1980s and early 1990s in China, people did not want to visit private pharmacies or hospitals. Most outlets were state-owned only (Naughton, 2007; Zapalska & Edwards, 2001) and the medical industry was no exception. At that time, the economy was transforming to a more market oriented one (Zapalska & Edwards, 2001), and it was just at the beginning stage for individuals to operate medical businesses. However most people still adhered to the perception and communist ideology (Liao & Sohmen, 2001) that only state-owned entities were allowed. Nevertheless, as time passed, this perception and prejudice gradually evolved then created new market demands.

The other type of market demands changes were market size expansions, which were found to have effects on entrepreneurial opportunity discoveries (Holcombe, 2003). Market size expansions were mainly due to income increases. Specifically, one decade's economic reforms and open door policy (commenced in 1978) made private businesses boom and contributed immensely to the economy (Zhou, 2011), which improved individual incomes.

Overall either changes of customers' preferences or total market size increases facilitated entrepreneurs' discovering of further entrepreneurial opportunities. These types of entrepreneurial opportunities were from unexploited markets which allowed entrepreneurs who possessed information to see them (Holcome, 2003). Entrepreneurs therefore exploited them by establishing new ventures.

Finding new inputs also facilitated opportunity discoveries. The input effects were found mainly in three areas in this study, including new suppliers, new raw materials, and new business platforms. Banerjee and Newman's (1993) study demonstrated that one entrepreneurship challenge was the supply chains. The importance of suppliers was due to the fact that new suppliers allowed entrepreneurs to perceive opportunities when they introduced potential products characterised by uniqueness, lower cost, and greater profit. New raw materials enabled business ideas to become more feasible. Evidence also illustrated that discoveries and sufficient new raw materials inputs were vital. Additionally, it was also found that the introduction of new business platforms helped create entrepreneurial opportunities. Therefore, by gaining access to new inputs, the entrepreneurs perceived opportunities that other could not.

Perceptions of new management methods were found to facilitate opportunity discoveries. These management skills were mainly acquired from previous business experiences. However, due to the basic and uncomplicated natures of necessity-based entrepreneurship, most necessity-based entrepreneurs possessed limited management knowledge. This reality was also shown in this study in

that only half of the entrepreneurs could perceive entrepreneurial management opportunities. More management skills were acquired subsequently by moving forward in their entrepreneurial careers. Regardless of the frequency of new management methods cited among examined cases, this factor played a key role for some entrepreneurs as to opportunity discoveries and further entrepreneurship activities.

Evidence further indicated that there was a relationship between favourable regulations and entrepreneurial opportunities. Even though China's economic reforms are associated with a high degree of market imperfection (Yueh, 2009), and although many problems emerged during this exploratory period, these reforms benefited the development of entrepreneurship. The direct impact emanated from entrepreneurship- favourable regulations. Typical examples found in this study were the deregulations of private sectors and down-sizing of state-owned enterprises, which opened new doors for entrepreneurs to explore some industries previously exclusively state-owned. Furthermore, decollectivisation (Liao & Sohmen, 2001) also contributed significantly. Plots of land could be contracted to private operators, which was impossible in the previous collectivised ideology. This decollectivisation created new opportunities and allowed individuals to gain access to more business alternatives.

## **6.4 Contributions and implications**

This exploratory study has aimed to comprehend the distinction between necessity entrepreneurship and opportunity entrepreneurship, and the transition process from the necessity-based start-up to subsequent opportunity-based entrepreneurship. Reviewers and critics have agreed that literature in this area has yet to develop into a sufficiently substantial body of research. This study of the transition process contributes significantly to this body of literature.

Firstly, using a multiple cases study method with in-depth interviews, participants spoke freely about the entrepreneurial career development and in so doing provided information to further comprehend the diverse dimensions of venturing in subsequent entrepreneurship contexts. Previous studies mainly focus on distinguishing between necessity entrepreneurship and opportunity entrepreneurship (e.g., Harding et al., 2006; Maritz, 2004; Minniti, Bygrave & Autio, 2005). A similar track was followed by previous research, such as to study the impacts (Jorn & Philipp, 2009) and the differences (Minniti et al., 2005; Smallbone & Welter, 2004) of necessity entrepreneurship and opportunity entrepreneurship. Little was discussed in regard to the transition from necessity entrepreneurship to opportunity entrepreneurship, let alone the establishment of the transition process model. This gap created the impetus of investigating this process. A four-stage transition process model was proposed. This four-stage model provides details of how necessity-based entrepreneurs upgrade to subsequent opportunity-based entrepreneurship as well as identifying the dynamics of the follow-up entrepreneurship development, which fills the gap of previous studies. The unique contribution of this study is the development of a transition process model from necessity-based start-up to subsequent opportunity entrepreneurship, which therefore contributes and adds depth to what is known about the subsequent entrepreneurial activities.

Secondly, comprehending the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship sheds some light on the understanding of multiple entrepreneurial activities. In setting out to understand this transition phenomenon, this research emphasised three facets. The first emphasis is the pre-venture stage of the necessity-based start-up. The finding of factors that pushed individuals into self-employment provides a deeper insight of the influence of 'push force' (Bhola et al., 2006), which better explains the phenomenon of necessity entrepreneurship especially in the context of developing countries. The second emphasis is the process of running necessity-based businesses. An understanding of why they pursued subsequent ventures and how they gained such wherewithal emerged. The findings contribute to support the literature that entrepreneurship is dynamic and multiple venturing processes (Ronstadt, 1988), and self-

employments which started as reluctant choices may evolve into desirable alternatives over time (Granger et al., 1995; Hinz and Jungbauer-Gans, 1999). The third emphasis is the transition process. The findings not only demonstrate what the transition process is but also identify determinants of the transition process. Additionally, the application of the corridor principle as to how opportunities are discovered and the use of effectual logic as to how resources were accumulated and exploited shed more light on understanding of this phenomenon.

Thirdly, the investigation finished by proposing a transition process model. The contribution is significant. On the one hand, it demonstrates the importance of the distinction between necessity entrepreneurship and opportunity entrepreneurship. Only by applying these two terms can some entrepreneurial phenomena are explained especially the motivations and determinants of entrepreneurial activities. On the other hand, it illustrates the existence of the transition process which was not identified in previous studies. Devising this transition process model will hopefully pave the way for more in-depth investigation into the many facets of entrepreneurship.

Finally, the selection of China as the context of research also contributes significantly to the understanding of entrepreneurship. The findings identified several characteristics of entrepreneurship which were not observed in studies based on more fully developed nations, such as the importance of *guanxi* in doing business and establishment financing methods in set-up stages. These unexpected findings also reflected Harper's (2003) statement that developing countries characterised by collective culture might possess some different social elements influencing the development of entrepreneurship.

The practical contributions are also noteworthy. As suggested by Ucbasaran et al., (2001) it is important to identify skills that successful entrepreneurs have learned and accumulated so that they can be disseminated. The findings of this research provide detailed insight into different stages of

entrepreneurship, which allow both nascent and novice entrepreneurs to understand this process, and that hopefully facilitate their venturing successes.

This research provides a new starting point for academics, practitioners and policy makers alike. While scholars can establish the results of this study to get a better understanding of the mechanisms associated with interest in the subsequent entrepreneurship transition process. Further study can be examining the internal relationships among each factor that facilitates the transition process.

The primary value of this study for practitioners includes a comprehensive understanding of how necessity-based entrepreneurs transform into follow-up opportunity entrepreneurship. However, this research identifies that entrepreneurship development in China is different from that of western countries due to the different institutional and cultural environment. Therefore, the success of entrepreneurship development heavily relies on contextual factors such as *guanxi* and the opportunities from the improvement of institutional environment.

Finally, this research also shed some light on how policy makers can facilitate the improvement of institutional environment for private sectors. This study suggests that more favourable policies and regulations are issued to support the development of entrepreneurship. Moreover, as China's economy transition from a planned economy to a market-oriented economy, facilitating the transition from necessity entrepreneurship to opportunity entrepreneurship also plays a vital role to increase the competitiveness of entrepreneur in the open market.

## **6.5 Limitations of the study**

It is impossible to create a single perfect study that could be considered as the final answer to a significant research problem in business studies (Scandura & Williams, 2000). It is a fact that there are limitations to every study. There are several limitations of this study, which are demonstrated in the following parts.

One limitation is the data collection method. Data of this study was mainly collected by the interview method. The researcher interviewed seasoned entrepreneurs who have experienced the transition process from necessity-based start-ups to subsequent opportunity entrepreneurship. Interviews questions revolved what they did to go through the transition process. However, this data collection method elicited one issue. The interview questions required participants to recall what had happened in the past, which means the study involves collecting data about past events. The main disadvantage of recollection is that memories might not be very reliable (Haavelmo, 1944) which might cause biases. To deal with this disadvantage, the data triangulation method was utilised. The data triangulation includes interviews with entrepreneurs' employees, friends or relatives who had witnessed the transition process, and the researcher's observations and recollections. By comparing data from different approaches, any unmatched data was picked up and referred back to interviewees. Therefore, the trustworthiness of the data was enhanced.

Another common concern about case studies is that they provide little basis for scientific generalisations (Yin, 1994). The findings and results of this study cannot be assumed to have generalised application. However, this research was not intended to provide generalised findings, but to generate questions and propositions for future qualitative and quantitative theory testing research where generalisations will be produced. Moreover, the study only investigates the research in one developing country which is China. To generalise the findings in other developing countries might not be convincing. This also suggests that further and future research in other contexts other than China is



required. Finally, the finding could be limited by regional effects. Though Fujian is a typical area with more entrepreneurial activities, the findings of this research might be limited by regional effects caused by the focus on one province only.

Although these limitations might be viewed as potential weaknesses in the final findings, there are several positive features of the research that add validity and credibility to the findings. Data collected from the entrepreneurs' employees, relatives, and friends enriched the information and triangulated data collection from entrepreneurs. Participants were very frank and willing to share their experiences and perceptions, which significantly improved the trustworthiness of the results. Moreover, their willingness to share experiences also provided a thorough understanding of doing business in China, which created additional outcomes and added greater value to the study.

## **6.6 Recommendations for future research**

The research findings, themes, meanings and essences provide insight into the phenomenon of the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship. Several discrepancies between this study and others' studies were elucidated by this research. The following section considers the differences that suggest avenues for future and further research in this field.

One opportunity for future research would be longitudinally following the career growths of these necessity-based start-up entrepreneurs, and measuring how they successfully operate in their following opportunity-based ventures. This longitudinal study would be arduous and time consuming since the transition process may takes over a decade, however it would be valuable. On the one hand, it will provide deeper investigation of the phenomenon and thus generate better understandings. On the other hand, a longitudinal study also needs to document failed transition processes, which were

not included in this study. Addressing failure is one area that is always difficult to address in entrepreneurship. A longitudinal study witnessing the growth of necessity-based start-up businesses will also reveal why some necessity-based entrepreneurs fail to further develop their careers. Identifying the reasons for failures in this process will also yield valuable new insights for academic researchers as well as entrepreneurs and investors.

Future research might also investigate the impact of entrepreneurial orientation on the firm-level performance of the subsequent opportunity-based entrepreneurship. Although research has indicated that firms with high levels of entrepreneurial orientation tend to constantly scan and monitor their operating environment to find opportunities and strengthen their competitive positions (Covin & Miles, 1999), and there is a positive impact of entrepreneurial orientation on firm performance (e.g., Keh, Nguyen & Ng, 2007; Wiklund, 1999), it is not clear how these activities influence the firm-level performance of the subsequent opportunity-based entrepreneurship.

The nature of phenomenological studies such as this is inherently limited in the degree to which findings and results are generalised across other populations. It is suggested that future research be conducted in the context of other countries to make the findings and results of the study more convincing. Moreover, this study is a live experience study that was not designed to quantitatively relate key factors of the transition process with successful entrepreneurs. However, the themes that were developed in this study can be tested as formal hypotheses, which suggest that additional research is required to determine if a numeric relationship between these variables exists.

## **6.7 Conclusions**

Studies into entrepreneurship have focused primarily on specific categories of entrepreneurs (McMullen et al., 2008; Timmons et al., 2004; Ucbasaran et al., 2001) and there is a need to take note

of the heterogeneity of types of entrepreneurs (Westhead & Wright, 1998). The most frequently used typologies of entrepreneurs include the typology based on the motivation including necessity entrepreneurship and opportunity entrepreneurship (Reynolds et al., 2001); the typology based on intention and experience including one-shot entrepreneurs, drop-out entrepreneurs and business generators (MacMillan, 1986), and the typology based on ownership propensity including habitual entrepreneurs and novice entrepreneurs (Carter, 1999; Westhead & Wright, 1998). Among them all, there has been a semantic move towards the utilisation of the terms necessity entrepreneurs and opportunity entrepreneur (Verheul et al., 2010).

The importance of necessity entrepreneurship and opportunity entrepreneurship is evaluated by applying them in entrepreneurship studies to understand sundry entrepreneurial phenomena, including the reason that entrepreneurial activities in developing countries are greater than in developed countries, while the contributions of entrepreneurship in economies is lower in developing countries than those of developed countries. Accordingly, for over a decade, scholars have been studying the impacts and differences (Jorn & Philipp, 2009; Minniti et al., 2005; Smallbone & Welter, 2004) of necessity entrepreneurship and opportunity entrepreneurship.

Apart from focusing on the distinction between necessity entrepreneurship and opportunity entrepreneurship, literature reviews demonstrate that there are close relationships between necessity entrepreneurship and opportunity entrepreneurship. Studies show that self-employments which started as a reluctant choice may then evolve into a desirable alternative (Granger et al., 1995; Hinz and Jungbauer-Gans 1999), their start-up motives shift from a necessity driver to opportunity driver over time (Williams et al., 2006; Williams & Round, 2009; Williams & Williams, 2011), showing that necessity entrepreneurs may participate in subsequent ventures and transition to opportunity entrepreneurship. However, the transition process from the necessity-based start-up to subsequent opportunity entrepreneurship is unknown, and there are gaps in the literature. Therefore this research

explores this phenomenon to better understand necessity entrepreneurship and opportunity entrepreneurship.

To investigate this entrepreneurial phenomenon, previous entrepreneurship literature was reviewed and four research questions were raised. As to the first question, the findings of this study have revealed that the need to survive drove entrepreneurs to self-employment. The main ‘push’ factors behind this trend included their career, financial, and family situations. In other words, they were prompted to start necessity entrepreneurship because they encountered difficulty in these three areas. However, their unemployment and financial difficulties do not necessarily lead to necessity entrepreneurship if they were protected by a good welfare system (Frese & De Kruif, 2000). Because most of them started initial businesses between the 1980s and early 1990s, a time when China was still impoverished, thus social security protections were limited and insufficient to guarantee livelihoods. Without the financial support, individuals had to make a living, engaging in the self-employment became the last resource to survive (Serviere, 2010).

The nature of necessity entrepreneurship also determined that individuals were capable of engaging in it. Necessity entrepreneurship was usually in the form of informal and casual set-ups or small businesses. Establishing these types of businesses was consistently less time consuming and less complicated. Therefore, the entry threshold of necessity entrepreneurship was relatively low. Low entry threshold was primarily observed in three respects: low regulation restrictions, low requirements for skills, and low financial costs. Further, necessity entrepreneurship also carried low opportunity costs which encouraged individuals to be self-employed.

In regard to the second research question, it was found that necessity entrepreneurs were motivated to seek more lucrative entrepreneurial opportunities and take part in more entrepreneurial activities, suggesting that entrepreneurship is a dynamic process. The negative effect of necessity-based start-up decreased as necessity entrepreneurs earned satisfactory livelihoods through self-employment. They

therefore preferred to stay in business. The motivations for subsequent ventures included entrepreneurial satisfaction, higher social status, growth prospects, personal interests, and increasing incomes.

For the third research question, resources and opportunities were found to be the most important factors in determining transition successes. Resources were accumulated while running initial necessity-based businesses. When necessity entrepreneurs decided to become involved in subsequent businesses, necessity entrepreneurs utilised the resources they possessed. Necessity entrepreneurs were found to use the logic of effectuation, rather than predicting the future of the businesses, they started by utilising what they possessed. This is consistent with previous studies that experienced entrepreneurs tend to utilise the effectual thinking rather than causative thinking (Morrish, 2009; Read et al., 2009). Three main types of resources played key roles in the transition process, including *guanxi*, entrepreneurial teams, and setting up.

Among all case participants, the importance of *guanxi* in setting up businesses was an unexpected finding in this study. All entrepreneurs claimed that *guanxi* was the most significant factor in doing business. This heavy reliance on *guanxi* in business also reflected the imperfection and uncertainty of legal and financial contexts in China (Hoang & Antoncic, 2003; Yueh 2007, Zhao et al., 2010). This culture of connections in business therefore encouraged entrepreneurs to gain access to more *guanxi* for further and future entrepreneurial activities. Entrepreneurs' initial necessity-based businesses were also found to have positive impacts on the access to *guanxi* developments. In terms of set up capital, entrepreneurs' set-up financing approaches were also an interesting finding. They were unable to secure loans from banks; therefore, they had to borrow money from friends or relatives. This finding also reinforced the importance *guanxi* in setting up businesses. Overall, the initial necessity-based businesses played roles in resource accumulation platforms. These platforms allowed necessity entrepreneurs to gain more resources which were essential in follow-up ventures.

In respect to opportunity, it was discovered that profitable entrepreneurial opportunities were found by necessity entrepreneurs in the process of running initial businesses. This finding was consistent with Ronsstadt's (1988) argument of the corridor principle. Moving down the corridor (existing initial necessity-based businesses), entrepreneurs reached vantage points where they saw intersecting corridors (new venture opportunities). Certainly during the operation of extant businesses, necessity entrepreneurs absorbed greater knowledge of businesses, and this gain enabled them to better understand businesses and maintain high levels of 'alertness'. Once good opportunities emerged, they could better perceive them relative to others. Accordingly, entrepreneurial opportunities were discovered through five areas: new products, markets, inputs, management, and favourable regulations.

Among all examined cases, it is particularly worth mentioning that the impacts of favourable entrepreneurship-related regulations were significant on entrepreneurship developments in China. As mentioned in Chapter 2, China had started to transition from a planned economy to a market economy since 1979. The objectives of the reforms were to stimulate the economy and to develop an economic form that is more market oriented (Ma, 2002). Entrepreneurial activities were allowed since that time. Even though China's economic reforms are associated with a high degree of market imperfection (Yueh, 2009), and although sundry problems emerged during this exploratory period, these reforms benefited the development of entrepreneurship. Since many entrepreneurs started their initial businesses during economic reforms, they benefited from numerous favourable regulations.

The last research question was answered by investigating the whole transition process from the necessity-based start-up to subsequent opportunity-based entrepreneurship. This process was divided into four main stages including the pre-venture, necessity entrepreneurship, the transition, and the opportunity-based entrepreneurship stages.

Overall, the introduction of the transition process fills the gap of literature that little research was done in terms of the transition relationship between necessity entrepreneurship and opportunity entrepreneurship. It also further supports the argument that the entrepreneurship is a dynamic and a multiple venturing process (Ronstadt, 1988), suggesting that more research should be done on this dynamic phenomenon. In terms of practical contributions, this study would provide better understanding of entrepreneurship to entrepreneurs and hopefully help with better performance of their entrepreneurial careers.

However, it is a fact that there are limitations to every study. One limitation is the data collection method which involved in collection information about the past events. However, this disadvantage was tackled by utilising data triangulation methods. The other aspect of limitation is the study rest largely on the context and in its exploratory nature. This results some limitations in the consideration of generalisation.

Finally, this study ends with recommendations for future research. One opportunity for future research would be longitudinally following the growth of these necessity-based start-up entrepreneurs, and observing how they successfully involve in a following opportunity-based venture. By doing so will provide more information for the understanding of this transition process as well as document some failed transition processes. Another suggestion is the selection of different countries as contexts in order to generate better generalisation. Additionally, the themes that were developed in this study can be tested as formal hypotheses, which suggest that additional research is required to determine if a numeric relationship exists between these variables.

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# APPENDIX 1



## Information Sheet

### **The transition from necessity-based start-up to subsequent opportunity-based entrepreneurship**

#### **Purpose of this study**

The objective of the study is to comprehend the transitional process from necessity entrepreneurship to opportunity entrepreneurship and identify what major factors determine the transitional process.

#### **Benefits of this study**

The research findings will be of interest to both academics and entrepreneurs as little research has been done regarding the transitional process from necessity entrepreneurship to opportunity entrepreneurship. It is expected that the current research would not only complement existing knowledge, but also help entrepreneurs to better understand the factors that facilitate the transition process.

#### **Confidential Procedures**

You are asked to participate in an interview to discuss factors facilitating the transitional process from necessity entrepreneurship to opportunity entrepreneurship. As an experienced entrepreneur, your knowledge and experience will provide valuable insights and enable a better understanding of entrepreneurship.

Participation in this study is entirely voluntary. In order to ensure anonymity for both you and your business, neither you nor your organisation's views or practices will be identified in any publication that arises from any part of the study. No payment will be made for your involvement in the study.

No potential risks to you or your business are anticipated as a result of involvement in the study. Any information you provide will be treated in the strictest confidence. The interview will be recorded and then transcribed. You will be given a copy of the transcript in either English or Chinese or both languages if you so request by providing your e-mail address to the interviewer. Once transcribed, the only people who will have access to the transcript of the interview will be the chief Investigator, the co-Investigator and the Primary Researcher. The electronic form of the data will be stored on a password protected computer within the School of Management at the University of Tasmania. The printed form of the transcript will be kept in a locked cabinet within the School of Management. The data will be kept by the University of Tasmania for five years from the date of the last publication arising from it, after which it will be destroyed under appropriate supervision.

You may withdraw from this research at any time without any effect so long as the research and its findings have not been published, and if you so wish may request that any data you have supplied to date be withdrawn from the research. However, if publications have already been submitted or published that contain this data, withdrawal of data will not be possible.

### **The interview**

The interview in which you have been asked to participate will take place at a date, time and place of your convenience. It will be conducted by Mr Rongchang Cai and will be of approximately one hour duration and will be audio-recorded and its contents later transcribed. The interview will focus on the following questions:

Q1. In setting up your initial business, why did you feel there was no other option but to become self-employed?

Q2. How is the performance of your initial necessity-driven business?

Q3. In setting up your subsequent business based on opportunities, how did you make the decision and what were the reasons behind it?

Q4. How is the performance of your current business?

Q5. What factors facilitated the transitional process from your initial necessity based business to your subsequent opportunity based business?

Q6. How did these factors have an impact on the transitional process?

In addition, depending on the responses to the above questions, follow-up questions may be asked in order to clarify your responses.

This study has been approved by the Tasmanian Social Science Human Research Ethics Committee. If you have concerns or complaints about the conduct of this study you may contact the members of the research team as listed below or the Executive Officer of the HREC (Tasmania) Network on telephone +61 3 6226 7479 or email [human.ethics@utas.edu.au](mailto:human.ethics@utas.edu.au). The Executive Officer is the person nominated to receive complaints from research participants. You will need to quote the HREC project number which is XXXX if you will wish to do so.

**Thank you for taking the time to consider this study.**

## **Contact Persons**

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## APPENDIX 2



### Consent Form

#### **The transition from necessity-based start-up to subsequent opportunity-based entrepreneurship**

1. I have read and understood the 'Information Sheet' for this project.
2. The nature and possible effects of the study have been explained to me.
3. I understand that the study involves an open-ended interview with the primary investigator of approximately one hour. This interview will focus on the transitional process from necessity entrepreneurship to opportunity entrepreneurship and it will be audio-recorded and later transcribed. I will have an opportunity to review and correct the transcript (in English, Chinese, or both languages) if I so request.
4. I understand that only the researchers will have access to the recorded and transcribed interviews. Identifiable information will be removed from subsequent publications so that no individual or business names can be identified.
5. I understand that all research data will be securely stored on the University of Tasmania premises for five years from the date of the last publication arising from it, and will then be destroyed.

6. Any questions that I have asked have been answered to my satisfaction.
7. I understand that the researchers will keep my identity confidential and that any information I supply to the researcher(s) will be used for the research only.
8. I agree to participate in this investigation and understand that I may withdraw at any time without any effects, and if I so wish may request that any information I have supplied to date be withdrawn from the research. However, I understand that if publications have already been submitted or published that contain this information, such a withdrawal may not be possible.

Signature of interviewer: \_\_\_\_\_

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

Signature of participant: \_\_\_\_\_

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

## APPENDIX 3

### Interview schedule

Age:

Business experience:

Gender:

Interview time and venue:

Education:

1. What was your initial business? Could you describe in some details of your initial business?
2. Why did you become self-employed? What factors allowed you to operate your own business?
3. What is your current business? Could you describe your current business in some detail?
4. Why did you set up your current business? What factors allowed you to do that?
5. How has your personal network helped you set up your subsequent business?
6. Where and how have you obtained the capital to finance your current business?
7. Have you discovered business opportunities from new products/services? If yes, how have they facilitated setting up your current business?
8. Have you discovered business opportunities from new market demand? If yes, how have they facilitated setting up your current business?



9. Have you discovered business opportunities from new inputs (raw materials, equipment, supplier et al.)? If yes, how have they facilitated setting up your current business?
10. Have you discovered business opportunities from new management processes? If yes, how have they facilitated setting up your current business?
11. Have you discovered business opportunities from new government regulations? If yes, how have they facilitated setting up your current business?
12. Have you discovered business opportunities from new social environments, cultures or customs? If yes, how have they facilitated setting up your current business?
13. Who has worked with you in setting up the current business?
14. Do they have industry specific experiences related to your business? If yes, how did these experiences help you set up this business?
15. Did they have prior experience in setting up a business? If yes, how did those experiences help you set up your current business?
16. What are the differences between setting up your previous business and your current business?